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**MVE UNIT
APRP**

**POLICY
LESSONS FROM
THE 2000/2001
COTTON
MARKETING
SEASON**

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LIST OF ACRONYMS

AERI	Agricultural Economic Research Institute
ALCOTEXA	Alexandria Cotton Exporters Association
ARC	Agricultural Research Center, Ministry of Agriculture and Land Reclamation
APCP	Agricultural Production and Credit Project
APRP	Agricultural Policy Reform Program
AR	Agrarian Reform Cooperatives
ATICOT	Arab Trade and Investment Company
CAAE	Central Administration for Agricultural Economics
CASC	Central Administration for Seed Certification and Testing
CASP	Central Administration for Seed Production
CAPQ	Central Administration for Plant Quarantine (MALR)
CATGO	Cotton Arbitration and Testing General Organization
CIF	Cotton Improvement Fund
CIF	Cost, insurance, freight
CIT-HC	Cotton and International Trade Holding Company (which became the Holding Company for International Trade in June 2000)
Co.	Company
CRI	Cotton Research Institute (ARC, MALR)
CSPP	Cotton Sector Promotion Program
CY	Calendar year
ELS	Extra long staple cotton
EMEPAC	Egyptian Company for Production, Marketing and Exporting Agricultural Crops
ER	Exchange rate
ETMF	Egyptian Textile Manufacturers Federation
fd.	Feddan (4200 sq. meters, equal to 0.42 hectares or 1.037 acres)
FOB	Free on board (includes all costs incurred in Alexandria in exporting cotton)
FY	Fiscal year
G - #	Giza (cotton) variety number
GATT	General Agreement on Tariffs and Trade
GOE	Government of Egypt
GTZ	German technical assistance program (Deutsche Gesellschaft Fur Technische Zusammenarbeit)
HC	Holding Company
HC-SWRMC	Holding Company for Spinning, Weaving and Ready-Made Clothes
HSU	Horticultural Services Unit
HVI	High volume instrument (for testing cotton lint)
ICAC	International Cotton Advisory Committee
ITMF	International Textile Manufacturers Federation
kg	Kilogram
kt.	Kentar
lb.	pound (English unit of weight, equal to 0.45359 kg.)
LE	Egyptian Pound (monetary unit)
lk	Lint kentar, or metric kentar, (equal to 50 kg. of lint cotton)
LR	Land Reclamation Cooperatives
LS	Long staple cotton
MALR	Ministry for Agriculture and Land Reclamation

MEFT	Ministry of Economy and Foreign Trade
mk	metric kantar (equal to 50 kg of lint cotton)
MLS	Medium long staple cotton (Giza 80/83, produced in Upper Egypt, low end of the long staple range) ¹
mmt	million metric tons
MPE	Ministry of Public Enterprise
mt	metric ton
MVE	Monitoring, Verification and Evaluation Unit of APRP
NA	not available (refers to data availability in tabulations)
NE	no estimate available (refers to data availability in tabulations)
NE	English yarn count designation
PBDAC	Principal Bank for Development and Agricultural Credit
RDI	Reform Design and Implementation Unit of APRP
RMC	Ready-made clothes
RMG	Ready-made garments
S&O	Situation and Outlook reports or reporting
S&W	spinning and weaving (used with company names)
SC	Supervisory Committee (for the 2000/01 cotton marketing season)
sk	seed kantar (equal to 157.5 kg of seed cotton)
TCF	Textile Consolidation Fund
UD	Universal density cotton bale (see discussion below)
US\$	United States dollar
USDA	United States Department of Agriculture
USAID	United States Agency for International Development

Weights and Measures

Ardeb	for cotton seed, equivalent to 120 kg. (also used as a measure for grain and lentils)
Bales ²	<p>a) UD bale = 218 kg. = 480 lbs. This is the standard bale produced in the U.S. Egyptian gins are increasingly equipped with UD bale presses, though bale weight varies between 230 and 300 kg.</p> <p>b) Egyptian bale = 327 kg. = 720 lbs. This is the bale size coming from the steam presses at the Alexandria Pressing Company.</p> <p>c) Sudanese bale = 191 kg. = 420 lbs.</p> <p>d) Syrian bale = 200 kg. = 441 lbs.</p> <p>e) Greek bale = 200 kg. = 441 lbs.</p>
Feddan	1.038 acres or 0.42 hectares
Lint kantar	50 kg. (20 lk per mt)
Seed kantar	Seed cotton – 157.6 kg. From one seed kantar, one obtains approximately 100 kg. of seed and 57.6 kg. of lint (and scarto).

¹ Technically speaking, Gizas 80 & 83 are long staple varieties, though they are at the low end of the LS range. We call them medium long staple varieties, because they have different spinning properties than other LS varieties.

² Note that the bale sizes reported are point estimates, although actual bale sizes may vary in weight as much as 5% either side of the point estimate.

PREFACE

The MVE Unit of APRP and the Egyptian German Cotton Sector Promotion Program (CSPP) collaborated on this important study with the MALR Economic Affairs Sector. Through this collaboration, the team that was assembled to undertake the work was able to examine most features of cotton marketing and utilization in Egypt in a comprehensive manner. The effort was excellent example of an collaboration among the members of a team, analysts, the sponsoring units, and most importantly, the government officials and private sector cotton experts who gave their time and shared valuable insights and information about marketing and use of Egyptian cotton. By combining resources and skills, each group participating in the study was able to concentrate on those aspects of the study that it could do most effectively. The quality of the end product hopefully benefits from this specialization and synergy.

Note that some data for the 2000/01 season are not final numbers, as the study covers the first 9-10 months of the cotton marketing and export season only. Figures on seed cotton purchases and deliveries to the gins and gin throughput and output are final ones. Export volume is close to final, while domestic utilization figures are incomplete, as three months of spinning remain in this year's marketing season.³ The spinning year has customarily been the GOE fiscal year of 1 July-30 June. This GOE accounting convention does not correspond with domestic spinners' cycle of utilization of Egyptian lint cotton. Domestic spinners do not obtain lint from the summer cotton crop until after the seed cotton has been bought, assembled, ginned, and delivered to spinning mills. Hence, the annual spinning cycle really does not begin until early or mid-October and runs until the next year's crop has been harvested and ginned. Despite these caveats, MVE and CSPP feel that the data presented in the report represent a reasonably accurate picture of what went on during the 2000/01 cotton marketing season.

³ The Egyptian cotton marketing season runs from 1 September 2000 to 31 August 2001. This convention on dates stems from the traditional "opening" of the cotton marketing export season, which typically begins in early or mid-September with ALCOTEXA's announcement of opening minimum export prices. Seed cotton buying begins in some areas of Upper Egypt as early as the second half of August, as the shorter-season varieties Giza 80/83 are planted earlier and harvested earlier than the LS and ELS varieties of the Delta. Export commitments could be made for 2000/01 following the ALCOTEXA meeting, attended by Youssef Boutros-Ghaly, of 12 September 2000.

CONTRIBUTORS TO THE STUDY

Conducted Structured Informal Interviews: Ron Krenz, Mohammed Abu El Wafa, Adel Mostafa, John Holtzman

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Ron Krenz drafted most of the report and is the lead author. John Holtzman drafted the chapters on small- and medium-scale cotton traders and domestic cotton utilization. The material on domestic spinners' utilization has been prepared under separate cover in past years, and this year represents the first effort to integrate it into the annual CSPP or MVE assessment of the cotton marketing season. Holtzman also added to and strengthened the policy recommendations, prepared the executive summary, and revised and finalized the chapters drafted by Ron Krenz.

Adel Mostafa designed, led and managed the MVE surveys of cotton traders and spinners. He also conducted numerous interviews with subsector participants, was instrumental in gaining access to and interpreting important data, and drafted notes and provided numerous insights that were key inputs into the report. Finally, he provided excellent critiques and reviews of draft sections of the report that helped to strengthen the final product.

Mohammed Abu El Wafa of CSPP also played an important role in contacting key informants in Cairo and in conducting interviews with Ron Krenz, and in working closely with the Cotton Policy Analysis Unit of the MALR/EAS in managing the producer survey field implementation, data entry, and data analysis.

Galal El-Rifai (CSPP) and Nabil El Sentricy (MVE) are acknowledged for their setting up of many interviews with key subsector informants in Alexandria and in contributing their usual insights and analyses.

CSPP and MVE owe special thanks to Eng. Mohammed El Shahed, who allocated MALR staff and resources to conduct a survey of 500 cotton producers in five sample governorates. Eng. Shahed was also instrumental in ensuring access to key MALR officials. Within the MALR/EAS, the Cotton Policy Analysis Unit conducted the survey of cotton producers and processed the data, producing tabulations that went directly into the report.

MVE wishes to thank Nabil El Sentricy, Ezz El Din Abdel Kader and Mohammed Atwa for carrying out a survey, in November 2000, of 49 private traders and trading companies who bought seed cotton in 2000/01. Nabil El Sentricy and Ezz El Din Abdel Kader also surveyed 23 private spinning companies in December 2000 and January 2001 to learn about their lint purchases, yarn output, employment, and operations in 1999/2000 and early 2000/01.

The support staff of the MVE Unit deserve special thanks. Dalia Radwan did numerous text revisions and Yvonne Azer completed the final edits and formatting of the report. We

are also grateful to Ms. Azer for assisting in preparing the PowerPoint slides used in the presentation at APRP of 1 April 2001. Flora Naeim assisted earlier with data entry, computer file maintenance, and updating of key MVE data files on registered and non-registered cotton traders. Their assistance was very professional, was provided very cheerfully, and is sincerely appreciated.

Sherif Fayyad, research assistant, assisted the MVE Unit in data processing and analysis using SPSS and EXCEL. He was particularly helpful in analyzing the trader and spinner survey data, and in producing tabulations of selected secondary data. He prepared some of the graphs and tabulations used in the report.

The greatest contribution to this study was made by all of those who cooperated with us in the interviews we conducted. They gave us their valuable time and provided most of the information used in this report. Many of these people are listed in the List of Contacts at the end of the report.

The authors alone are responsible for any errors and omissions. The opinions and policy recommendations presented in the report are the opinions of the authors and not necessarily those of their funding agencies (USAID, GTZ, MALR).

EXECUTIVE SUMMARY

In 2000/01 the cotton subsector saw several major changes in seed cotton marketing procedures. While there were some further steps toward liberalization, there were also some initial, early season steps backward, away from a competitive system, that were rectified by ministerial adjustments several weeks into the season.

Perceived Shortage and Its Effect On Exports. In 2000, only 518,000 feddans were planted to cotton, primarily due to the low cotton prices in recent years. While lint cotton shortages, particularly for long-staple varieties, were widely anticipated, domestic utilization of Egyptian lint cotton had fallen to only 2.9 million lint kentars in 1999/2000, the lowest level in 36 years, and was expected to remain relatively low in 2000/01. So the shortage may end up being partly more perceived than real. Yields and out-turn ratios were higher than originally expected, leading to a higher lint cotton output than anticipated. Imports of 575,000 lint kentars (by late April 2001) also increased supply. If domestic utilization is low, and uncommitted stocks of Giza 70 and most LS varieties remain high (as they were by the end of April 2001), the perception of shortage early in the marketing season may change to significant actual carryover into 2001/02.

The perception of shortage did affect, however, export levels. Early in the cotton marketing season the Ministerial Committee for Cotton agreed to export limits of 50,000 mt for ELS varieties and the same for LS varieties for a total of 100,000 mt. Note that export shipments during 1998/99 and 1999/2000 reached 100,000 mt. This level of commitments to exports is a positive sign that the GOE is serious about maintaining foreign market shares for fine cotton. Limiting exports of particular varieties is, however, an undesirable artifact of a command and control economy. Exports of LS varieties, particularly by private traders, could have been greater in 2000/01. Foreign buyers try to cover their needs early in the marketing season; limits on exports of Egyptian lint (or rumors about limits) forced them to look elsewhere.

Increased Authority of the Supervisory Committee and Changes in Allocation of PBDAC Rings from 1999/00. While the Ministerial Decree 1030 of August 2000 read much like decrees of prior years, *a major change in organizing the Optional System was that the Supervisory Committee unilaterally allocated the rings rather than the CIT-HC in consultation with the Domestic Cotton Traders' Committee.* The allocation procedures were somewhat vague, and 28% of the PBDAC rings were assigned to the Horticultural Services Unit (HSU) on the basis that these rings were all producing planting seed for next season. HSU actually received 39.5 percent of the cotton delivered to all PBDAC rings, during its first year of participation in cotton marketing. *No one entity, public or private, has ever received such a large market share of seed cotton in Egypt.*

The implementation decisions of the Supervisory Committee (SC) unleashed a vehement private sector protest of favoritism, arbitrariness, and unfairness resulting in many faxes and appeals to the relevant ministers and officials during late August and early September 2000. A result was that Ministers Wally of MALR and Ghaly of MEFT issued a press release on 26 September 2000 that was published in national newspapers and informed the public that anyone interested in participating in seed cotton marketing could do so. This press release was a major reversal of the power of the SC. It also reflected the rising power of the private sector traders as a lobbying group with political clout.

810 PBDAC rings were allocated among a total of 62 companies, including 17 public companies and 45 private companies or individual traders. This number of participants exceeds the number of firms buying seed cotton at PBDAC rings since 1995/96. A negative consequence of the short cotton crop and the broader participation was that many traders with experience and capacity received fewer rings than they requested and that were needed to operate efficiently and at an appropriate scale.

Purchases by Cooperatives. Farmers under the supervision of the Agrarian Reform and the Land Reclamation Cooperative Societies sold 77% of their seed cotton to these cooperative societies, who were partially (50%) financed by public and private trading companies who bought their seed cotton.

Cotton producers' marketing cooperatives, represented by a national umbrella organization, reached an agreement in late July 2000 with five major buyers, including four private exporters and the HC, to buy over 1.7 million seed kentars. The private companies abandoned these agreements in August 2000 after the SC announced the rules for allocation of rings and the quota system governing purchasing of the seed cotton crop. Nevertheless, these coops ended up buying 290,000 sk outside the PBDAC sales rings at cooperative collection centers.

Operation of the Optional Cotton Marketing System and Alternative Channels. The general operating rules of the PBDAC sales rings were similar in 2000/01 to previous years. Each ring was assigned to one company only with no competitive bidding allowed within the sales ring. Seed cotton buyers at these rings had to be registered traders, and they had to agree to purchase all of the seed cotton delivered, regardless of grade, time of delivery, or whether the cotton came from the first or other picking.

Egyptian cotton producers were permitted to sell their seed cotton to whomever would make them an offer. This included private traders and coops who bought outside the PBDAC rings.

The private sector purchased 36 percent of the seed cotton in 2000/01 and the public firms, including HSU, received 64 percent. Trading of lint cotton between traders was considerably greater this season than in previous seasons. HSU sold all of its cotton as lint cotton to other traders, largely public trading companies. The private sector exported 54 percent of the cotton it bought and would eventually sell, by the end of the season, the remaining 46 percent of its lint to domestic spinners, largely to private spinners (estimated 71%) and joint investment spinners (24%).

Cotton Pricing. After several years of declining world cotton prices, international cotton prices rebounded during 2000, and ALCOTEXA responded by raising the 2000/01 season-opening prices for exports by 10-14 cents per lb. Price ranges were proposed by Minister Youssef Boutros Ghaly of MEFT and accepted in a meeting with the ALCOTEXA Management Committee on 12 September 2000. The concept was designed to give buyers some flexibility in submission of bids and to provide a method of detecting an increase or decline in demand from week to week.

Seed cotton prices paid to producers at PBDAC sales rings were determined by the GOE and based on the season-opening lint export prices. CATGO and the Holding Company for

Spinning, Weaving and Ready-Made Clothes (HC-SWRMC) provided tables of seed cotton prices by grade and out-turn ratio in consultation with the Supervisory Committee established by the joint Ministerial Decree of August 2000.

On 25 September 2000 the High Council for Cotton decided to make a further increase in the seed cotton prices for Giza 85, 86 and 89 of LE 10/kt. This raised the cost of lint to traders and domestic spinners. Prior to this date, there had been discussion within the Government of a deficiency payment to producers. But with this price increase the discussion of a subsidy to farmers was dropped and eventually the funds set aside for that purpose were used to subsidize domestic spinners' purchases of lint.

Producers selling outside PBDAC rings sometimes received higher prices than official prices. Farmers who sold at PBDAC rings did so because they knew they would get paid the official price and they felt that the weighing and grading would be accurate. This implies that some farmers do not trust traders who buy outside sales rings.

Purchases Outside Sales Rings. Private registered trader purchases outside the PBDAC sales rings were an estimated 197,632 seed kentars, or 5.7 percent of the estimated seed cotton crop. Unlike the cooperatives, who delivered all their cotton as seed cotton to buyers, many traders ginned their seed cotton and sold lint to larger private traders and to public and private spinners. They increased their returns by selling cottonseed to oilseed processors, typically at a substantial premium (of LE 10-15/ardeb) over the official prices, and by selling lint cotton, which typically has a higher grade than the same seed cotton before ginning.

Some of the private trading companies that delivered seed cotton to the gins purchased some (or all) of their cotton outside the rings. This method of buying includes the operation of private sales rings, buying from registered or non-registered traders, and in some cases direct purchases from producers.

Utilization of the 2000 Cotton Crop. As of late May 2001, six public companies and thirteen private firms had received commitments from customers to export 81,424 mt of lint cotton during the 2000/01 season. This level of commitments is below export shipment levels of the past two seasons, but it represents a higher proportion of the cotton crop than in any other year during the 1990s. The private sector had achieved 50.7 percent of total export commitments during the 2000/01 season by late May 2001. The public sector handled the major share (72.5%) of exports of ELS varieties, while the private sector handled most (70%) of the LS exports. *Egyptian exporters could probably have committed more LS cotton for export had the quotas (ceilings) on exports not been in place. That being said, it is important to note that LS shipments were only 51.7% of commitments as of late May 2001. This suggests that actual export shipments in 2000/01 may fall below the 81,424 mt level of commitments, perhaps not reaching 70,000 mt. The 2000/01 export marketing season will probably be extended an additional month (through September 30, 2001) to allow more unfulfilled commitments to be shipped.*

Domestic utilization of Egyptian cotton will likely be less than 3.0 mlk in 2000/01 for a second straight year, as domestic spinners continue to struggle with the problems that plagued them during the second half of the 1990s. The better-performing public spinners, the two joint investment companies, and the privatized spinners have been able to finance lint cotton purchases and operate at earlier-year levels. The worse-performing public spinners and small open-end spinners are operating at lower levels of capacity utilization, even though public

spinners are receiving subsidies on the Egyptian lint they buy. Note, however, that the cheaper Egyptian varieties, Giza 80/83, seem not to be available in the desired quantities, so public spinners have bought Syrian and, in a few cases, Sudanese lint to keep some of their capacity operating, producing low- and medium-count yarns. Significant old Giza 70 stocks of non-exportable grades, held by the public sector cotton trading companies, are also being sold to domestic spinners at discounted prices.

Policy Recommendations: *Domestic Seed Cotton Marketing*

- Since it appears as if a subsidy will be paid to cotton producers in 2001/02, the GOE needs to find a suitable mechanism to pay subsidies without interfering in seed cotton pricing and marketing. Ideally, these payments would be made directly to producers, but the requirements of administering such a system would be very high. Hence, payments would best be directed to registered traders delivering seed cotton to the gins. Any registered trader, with or without PBDAC sales rings, could participate.
- The GOE should require that the private sector have equal representation on the Supervisory Committee in its annual inter-Ministerial decree. This provision needs to be spelled out explicitly in the decree for the optional cotton marketing system. The private sector should choose its representatives, not the SC, PBDAC, or any Ministry. ALCOTEXA, the Domestic Cotton Marketing Committee, and the Cotton Producers' Marketing Cooperatives would select their own representatives to the Supervisory Committee.
- Grading of seed cotton should be permitted at any gin, in addition to PBDAC sales rings, private sales rings, or cooperative collection points. Any private trader buying seed cotton outside sales rings should be allowed to deliver his cotton to a gin and have it graded by CATGO graders within a reasonable period (explicitly noted maximum number of days).

Note that this is consistent with APRP Tranche V Policy Benchmark D.1, which states that “*Government will allow private sector cotton buyers and cooperatives to set up and operate marketing rings for the collection and purchase of seed cotton.*” Our recommendation goes beyond the Benchmark D.1 in allowing private buyers to assemble seed cotton anywhere (not only in private rings), deliver it to gins, and have it weighed and graded (as seed cotton) at the gins before ginning.

- Selection of seed cotton for the next season's planting should be done by qualified MALR technicians at the gins. Seed purchases need to be determined as a function of a realistic plan for the following year's seed cotton planting. A technical committee should be formed, including representatives of MALR, the HC-SWRMC, and the private sector, to determine realistic seed requirements. HSU should not be allocated an exaggerated market share.

Policy Recommendations: *Lint Marketing and Pricing*

- ALCOTEXA should not set opening minimum lint export prices in 2001, nor set minimum prices at any time during the 2001/02 marketing season. Each week ALCOTEXA could report either average prices or a price range, along with export commitments by variety.

- ALCOTEXA should be allowed to test other innovations, such as permitting trading companies to enter into forward contracts before the season officially opens, and changes in export grading, fobbing costs, and sharing of carrying charges for lint prior to export shipment.
- The study team recommends not subsidizing domestic spinners, as these subsidies may keep inefficient public companies in operation longer than they should be allowed to operate. If subsidies are going to be paid on Egyptian lint, however, they should be offered to both public sector spinning companies and private spinners on equal terms. Egyptian lint (and any imported lint) sold by public sector companies (or the HC-SWRMC) should be made available to all buyers on the same terms. This includes sales of carryover stocks.
- No GOE official or agency should set export quotas or export price levels for any cotton variety. Similarly, the GOE should not set quotas for deliveries of particular varieties of lint to public sector spinning mills.

1. INTRODUCTION

Two years ago we reported "The Egyptian cotton subsector has followed a winding and twisting road toward liberalization." We can report here that this subsector still is on that same winding road, but at least it still is on that road. We believe that liberalization has not been derailed. In 2000/01 the cotton subsector season saw several major changes in the cotton marketing procedures. Some of these changes were major steps backward, away from liberalization and competition, but there were also some steps toward liberalization.

Therefore, the purpose of this study was to see if, as a result of these changes, the cotton subsector is still moving toward market liberalization. The CSPP has examined the seed cotton market several times in recent years (15,18,19). MVE (7,8,14) and RDI (2,3,4,10) have also studied the Egyptian cotton market in recent years. Annual assessments of cotton marketing and the policy and regulatory environment affecting marketing have been necessary, because each season is characterized by a different set of initial conditions and a different mix of policies, regulations, and implementation measures. What may appear to be relatively minor changes in initial conditions and policies can have a significant impact on how the cotton marketing system is organized, operates and performs. This can lead to quite different outcomes with respect to:

- The degree of private sector participation in seed cotton buying, ginning, lint sales to public and private spinners, and exports.
- Export levels relative to domestic utilization (spinning) of Egyptian lint.
- Returns to farmers, traders, ginners, exporters, coops and spinners.

One task of this study was to examine the market structure for seed and lint cotton. Shares of the market were estimated for the public and private subsectors in trading seed cotton, ginning, and selling of lint to domestic and foreign spinners. The number of firms and their market shares were estimated at each stage.

This study will not attempt to provide an in-depth analysis of the textile portion of the cotton industry. The textile sub-sector has been studied elsewhere (6). In this study some attention was given to the lint requirements of the spinning industry and some new developments in the cotton buying policies of Egyptian spinners to learn about the market for lint cotton.

A major source of information for this study was the numerous interviews of members of the cotton trade, from both public and private firms (See List of Persons Interviewed). These persons were asked to provide data on the operations of their firms and to provide their opinions about market conditions and their problems in cotton marketing in 2000/01.

Data on cotton marketing were obtained from a survey of 500 cotton producers. These producers responded to questions regarding how they sold their cotton and why they preferred that outlet, their knowledge of the market options open to them, and their marketing preferences for the future.

The first step in the analysis will be to look at the government policies and the resulting cotton prices in 2000/01 and compare them to previous years (Chapter 2). Of major concern this season were the new procedures used in the allocation of the seed cotton collection

centers. These new procedures in the allocation of the rings brought great consternation to the private sector.

We next look at cotton production this season, including changes in varieties, the markets for cotton seed for planting and oil production, and the area of cotton planted this season (Chapter 3). We then move to cotton marketing, beginning with a look at the marketing activities and awareness of a group of 500 producers (Chapter 4).

The first step in the marketing chain is the sale of the seed cotton by the producer. This first step involves the producers sales of seed cotton at PBDAC rings, through co-operatives, or to private traders. Chapter 5 will describe sales at the PBDAC rings and Chapter 6 will deal with sales to the co-operatives. Chapter 7 discusses sales to private traders based on the results of a survey of 47 small private seed cotton traders. This is a large and growing group and with growing importance in the cotton business.

With Chapter 8 we begin to look at the 2nd round in the marketing chain, regarding the seed cotton buying activities of the public trading companies, the three remaining public gins, spinners and the private marketing firms which are also exporters. These private firms, with the exception of two private spinners, are all members of ALCOTEXA.

Following this we briefly look at the ginning industry (Chapter 9), the domestic market for Egyptian and imported lint (Chapter 10), and finally at exports (Chapter 11). A summary of the marketing channels and market shares is presented in Chapter 12. Last, the major recommendations of the study are discussed in Chapter 13.

2. COTTON PRICES AND GOVERNMENT POLICIES

2.1 Lint Export Prices

After several years of declining cotton prices (Table 2-1) international cotton prices rebounded during 2000 and ALCOTEXA responded with increases in the opening prices for exports for the 2000/01 season of about 10-14 cents per lb. The exact amount of increase in the export prices over last season varied since a new pricing scheme was introduced in 2000/01 that involves a price range instead of a single price for each grade and variety. The price range concept was proposed by Minister Youssef Boutros Ghaly of MEFT in a meeting with the ALCOTEXA Management Committee on 12 September 2000. The concept is designed to give buyers some flexibility in submission of bids and to provide a method of detecting an increase or decline in demand. This price range system is discussed in greater detail in Chapter XI.

**Table 2-1: Opening Export Prices of Egyptian Lint Cotton,
(Grade = Good/Fully Good), and US Pima, 1990-91 through 2000-01
(US cents/lb.)**

Season	G-45	G-70	G-76	G-77	G-88	G-86	G-85	G-89	G-80	G-83	US Pima*
1990-91		237	260	232	NG	NG	NG	NG	NG	NG	136
1991-92		160	168	155	NG	NG	NG	NG	NG	NG	116
1992-93		129	138	121	NG	NG	NG	NG	NG	NG	100
1993-94		107	114	97	NG	NG	NG	NG	81	81	103
1994-95		107	112	102	NG	NG	91	NG	87	87	130
1995-96	213	188	193	183	NG	NG	---	NG	NE	NE	170
1996-97	200	140	147	135	NG	111	107	NG	103	103	117
1997-98	245	130	135	122	120	105	96	98	92	92	112
1998-99	220	117	120	112	112	100	92	94	88	86	120
1999-00	152	102	104	100	100	94	88	91	82	82	94
2000-01 (range)	118- 120	114- 116	112- 114	111- 113	112- 114	107- 110	100- 103	103- 104	94-96	94-96	115

Source: Egyptian prices from the Egyptian Cotton Gazette, No 116, October 2000.

Note: *Pima Grade 2, 17/16", CIF, North Europe for Nov. - Dec. delivery. Pima prices are quoted for the start of the Egyptian export marketing season (first half of September) from Cotton Outlook. NG = Not grown, NE = No exports.

Table 2-1 includes export prices for several varieties that were not grown during the 2000/01 season, including G-45, G-76, and G-77. Carry-over stocks of these varieties, held by public sector trading firms, were available for export during this season (Chapter 11).

2.2 Seed Cotton Prices

As has been the case since liberalization of the cotton subsector began in 1994/95, and even earlier, the seed cotton prices determined by the GOE, to be paid to producers, have been based on the season-opening lint export prices. The prices of seed cotton were determined by the Cotton Marketing Supervisory Committee, established by Ministerial Decree 1030 of August 2000. The export price of lint was converted to Egyptian Pounds at the official exchange rate (LE 3.47/USD) and then appropriate adjustments were made for marketing costs and the value of byproducts.

The steps involved can be illustrated as follows for Giza 86:

1. We begin with the export price for G-86, grade Good +3/8^{ths}. Which was priced for export at the opening market price at 105-107 cents/lb. The seed cotton prices are based on the bottom of the range.
2. The allowance of 10 cents/lb. for fobbing expense is subtracted = 95 cents/lb.
3. This price is converted to LE/seed kantar as follows:
One lint kantar = 50 kg * 2.2016 lbs./kg = 110.08 lbs.
The exchange rate used to calculate the seed cotton prices was LE 3.47 = US \$1.00
The value of one lint kantar = .95 lb.X 110.08 lbs./kt. * 3.47 LE = LE 362.88
4. The value of the cotton seed was set at LE 72/ardeb (120 kg) and the value of scarto was set at LE 10/kt. in Decree 1030/2000. With a ginning outturn of 100 percent, for each seed kantar we have one kantar of lint (50 kg), 100 kg of seed, and 7.5 kg of scarto. The value of the by-products per seed kantar would be LE 61.79. The marketing costs from the farm through ginning and until the lint cotton is delivered to the port at Alexandria was set at LE 50/kt. Thus the value of the seed kantar of G-86 at 100 percent ginning outturn is:

$$\text{LE } 362.88 + \text{LE } 61.79 - \text{LE } 50 = \text{LE } 382.88.$$

An exchange rate of LE 3.47= US\$ 1.00 was used in determining the prices of seed cotton although the GOE was under pressure at that time to devalue the Egyptian pound. The exchange rate had averaged LE 3.47/US\$ during the June-August but started to move upwards to LE 3.51 in September, LE 3.65 in October, LE 3.75 in November and reached LE 3.85 in January 2001. This devaluation gave a windfall gain, in Egyptian pounds, of about 11 percent to exporters.⁴

The resulting seed cotton prices for the 2000/01 season are given in Table 2-2 with comparisons to earlier years. The seed cotton prices for the 2000/01 season are roughly LE 50-60/kt. higher than in the previous season, equal to 12-16%. Part of the increase from last season indicated in Table 2-2 is due to higher average ginning outturns this season but the major portion of the increase is due to higher announced prices.

On 25 September, 2000 the High Council for cotton decided to make a further increase in the seed cotton prices for Giza 85, 86 and 89 of LE 10/kt. These price changes were immediately made in the official price tables. This raised the cost of lint to traders and domestic spinners. Prior to this date there had been some discussion within the government of a deficiency payment to producers. But with this price increase the discussion of a subsidy to farmers was dropped and eventually the funds set aside for that purpose were provided to domestic spinners to reduce their costs of purchased lint.

⁴ It was reported that public trading companies were required to convert US dollars to LE at various rates below this level of 3.85. To our knowledge, the private traders were not subject to these same restrictions. However, only a small portion of the payments for exported cotton were received before the rate had reached LE 3.85.

Table 2-2: Average Official Prices of Major Varieties of Seed Cotton, 1993/94 through 2000/01

(LE/seed kantar)											
Season	G-45	G-70	G-88	G-76	G-77	G-75	G-86	G-85	G-89	G-80	G-83
1993-94		361		390	323	281	NG	NG	NG	274	---
1994-95	500	375		376	351	329	NG	NG	NG	323	316
1995-96	600	566		585	550	500	500	NG	NG	425	425
1996-97	700	565		590	550	500	500	500	500	440	440
1997-98*	700	555		590	550	500	500	500	500	440	440
1998-99	741	405		412	383	NG	363	338	342	295	296
1999-00	776	397		NG	NG	NG	363	338	337	316	300
2000-01	NG	447	459	NG	NG	NG	426	387	407	359	354

Source: 6, Tables 3-1, 3-5, & 3-6. NG = not grown.

Note: The minimum grade required for these prices in 1996/97 was Good. In 1997/98 the grade required for these floor prices was increased to Good/Fully Good. The prices in 1998/99, 1999/00 and 2000/01 are for the grade of Good +1/8 and for 2000/01 are based on the average ginning out-turns given in Table 9-1.

2.3 Price Differentials by Grade

Examination of the table of prices of lint cotton for export will reveal that the differentials between grades is a constant one cent per lb. for each 1/16th of a grade. This is true for all varieties. This makes very little market sense. For example in 2000/01, the lower limits of the opening export market prices (for grade Good + 3/8^{ths}) ranged from 92 cents/lb. up to 116 cents/lb., but the differential between each 1/16th of a grade was one cent/lb., for all varieties. It is highly unlikely that the value to the spinner of each 1/16th grade difference is the same for all varieties and under all market situations. More price flexibility is needed and hopefully the degree of price flexibility (price differentials between grades) will be market determined in the future.

Examination of the official price tables for seed cotton reveals a LE 6/kt. difference for each 1/8th grade differential, again for all varieties, for cotton with 100 percent ginning outturn. The differential increases proportionally with increases in ginning outturn. A seed kantar represents 50 kg or 110.08 lb. of cotton. Hence each 1/8th grade difference represents a difference in price of LE 6/kt. at the seed cotton level but 220.16 cents at the lint cotton level. At the current exchange rate of 1US \$ = LE 3.85 the equivalent value difference is LE 8.47/kt., rather than LE 6. This means that the price premiums at the export level are not fully passed on to the producer. Added value comes from efforts to clean the cotton when ginning. Ginning often results in an upgrade of the cotton, but in that case the owner of the cotton is buying at a low grade and selling at a higher grade and gets the full benefit of the price differential between the grades--not the farmer.

2.4 Allocation of the PBDAC Sales Rings

There is little doubt that the allocation of the PBDAC seed cotton sales rings was a highly controversial issue in the 2000/01 season. In this section we will briefly review the history of this matter and discuss the procedures used to allocate the rings. The number of rings obtained by each trading company or individual and the quantities of seed cotton obtained by each trading company will be presented in Chapter 5.

2.4.1 Prior to the 2000/01 Season

Throughout the period of cotton nationalization, beginning in the early 1960's, the first step in seed cotton marketing was the collection of the seed cotton from the growers at approximately 2000-2200 collection centers that were managed by the co-operatives. These 2000 or 2200 local societies were all associated with the Agrarian Reform Co-op Society, the Land Reclamation Co-op Society, or the General Agricultural Co-op Association for Cotton Producers Society. These collection centers acted only as agents for the six public trading and cotton exporting companies, since the trading company which would receive the cotton collected at each collection center was designated in advance and the prices of all seed cotton varieties and grades had been set by the GOE. The cotton production of the country was divided so that each of the six trading companies received a more or less equal share of the seed cotton crop each season. No marketing choices were available to either the producers or the co-operatives. The co-operatives performed merely a collection function.

This system of allocation of the seed cotton to the six public trading companies continued until liberalization began in 1994/95. In that first season of liberalization the only major private sector firm, the Al-Ahly (National) Co., purchased about one third of the total seed cotton crop, but all of the cotton was still handled by the co-op collection centers. Public ginning companies also began to purchase seed cotton, but all buyers purchased the bulk of the seed cotton through the co-op collection centers.

In the 1995/96 season, the co-operative collection centers were replaced by a system of collection centers, or sales rings, under the supervision of PBDAC. This shift in the supervisory control from the co-ops to PBDAC was largely a matter of political power. The success of the PBDAC rings was quite limited that first season. General acceptance of the PBDAC sales rings was low, mainly because many farmers expected that PBDAC would deduct from the cotton payments amounts owed PBDAC by the farmers on production loans. Also, farmers resented this forced takeover of the cotton marketing system. Some co-operatives still continued to function, and private traders purchased the bulk of the seed cotton directly from growers.

By the 1996/97 season PBDAC had improved its operations of the rings, including quicker grading and quicker payment for the seed cotton. Hence in that season the bulk of the sales of seed cotton by producers were at the PBDAC sales rings.⁵ PBDAC continued to dominate the market at the first level of sale through the 1997/98 and 1998/99 seasons.⁶ However the Agrarian Reform and Land Reclamation Co-operatives had regained market control over production of their members. In fact, the ministerial decrees which annually established the PBDAC sales rings specifically note that the members of Agrarian Reform and Land Reclamation societies would market their cotton through their own collection centers.

The various decrees for the three-year period, 1997/98 to 1999/2000, all referred to the marketing system as "The Optional System of Internal (Domestic) Cotton Marketing". These decrees also specifically state that "the farmer is free to market his cotton through the system or to any other buyer", and that this system is to be administered by a "Supervisory Committee." Decree 1014 of 1999 also specifically stated that "the CIT-HC, in co-ordination with the Supervisory Committee, will distribute the marketing circles among the buying and

⁵ According to MALR decrees 908 and 1244 for 1996. Also see (12, pages 24-26)

⁶ According to MALR decrees no. 931 for 1997 and 1048 for 1998.

participating authorities in the system within the limit of the demand and the potentialities of every party in a way that prevents monopoly of specific varieties."

Hence the CIT-HC had the responsibility for allocation of the PBDAC sales among traders during the 1997/98, 1998/99, and 1999-2000 seasons. There was weak demand for rings on the part of the private sector in 1997/98 due to low prices. Only three private sector firms bought seed cotton through the PBDAC rings that season and took only 55 of the 857 rings (6.4%). The private firms basically had first choice of the PBDAC sales rings during the 1996/97 through 1998/99 seasons.

In the 1998/99 season the private sector trading firms were again given first priority in the choice of rings, with respect to the number, variety and location of rings. Seven private firms chose 135 of the 892 rings (15%) and the balance was distributed among the public trading and ginning companies.

In the 1999-2000 season the demand for rings was greater than the supply because of a small crop. The private sector was allocated 30 percent of the rings, equal to 239.5 rings, and the public sector received 70 percent.⁷ This allocation was an arbitrary decision on the part of the Chairman of the CIT-HC. One nominally private firm, EMEPAC, received 45.5 rings, or 19 percent of the sales rings allocated to the private sector. Only Modern Nile was allocated more rings (78) among private firms.

Hence, specific rules for allocation of the rings were not specified in the decrees but were provided by the Chairman of the CIT-HC. The decree does imply that the allocation can include "the potentiality of every party," which has been taken to mean that the allocation among firms can be based on previous years marketing volumes.

2.4.2 Ring Allocation in the 2000/01 Season

Major factors affecting the 2000/01 seed cotton allocation were the very small cotton crop and the rise in international cotton prices. As will be shown in Chapter III, the area planted in 2000 was the smallest in over a century. Fortunately the yield and the quality of the 2000 cotton crop were good, but early in the season, at the time of allocation of the rings, the expected production was only 3.7 million kentars of lint, which would have been the smallest crop in Egypt since 1943. The actual crop was 4.2 mlk, 13.5% larger than anticipated. Traders requested over 2000 PBDAC sales rings in the 2000/01 season.

The rules for operating the PBDAC sales rings in the 2000/01 market season were established by Ministerial Decree No. 1030 of 2000 and carried out by the ad hoc Supervisory Committee (SC) established exclusively for that purpose. This decree was issued jointly by four ministers on August 2, 2000.⁸ A major change from prior years was that the SC allocated the rings rather than the CIT-HC.

By that date a reorganization of the holding companies had taken place wherein all public cotton trading companies and ginning companies had been placed under the Holding

⁷ According to MALR decree No. 1014 of 1999.

⁸ This decree was issued jointly by Dr. Mokhtar Khattab, Minister of Public Enterprises, Dr. Hassan Khedr, Minister of Supply and Home Trade, Dr. Youssef Boutros Ghali, Minister of Economy and Foreign Trade, and Dr. Youssef Wally, Deputy Prime Minister and Minister of Agriculture and Land Reclamation.

Company for Cotton, Textile and Ready Made Garments.⁹ The CIT-HC was renamed as the International Trade Holding Company, which included no cotton companies.

On 10 August 2000 (a Thursday) the SC announced that individuals or companies wishing to participate in the seed cotton marketing in 2000/01 should make an application by the following Monday. The applications would need to include lists of the requested rings, by location and variety, and a deposit of LE 5000 per sales ring. This short notice caused a barrage of complaints to the SC and to key government officials.

2.4.3 Entry of the Horticultural Services Unit (HSU)

A new player, the Horticultural Services Unit (HSU) entered the seed cotton market in the 2000/01 season.¹⁰ The HSU is a public agency within the MALR that was established in 1996 or 1997 for the purpose of managing the seed production resources of the MALR. An associated private company, EMEPAC, and under the same managerial control as HSU, was also formed at that time for the purpose of trading certified seeds, including cottonseed. During the three seasons 1997/98 through 1999-2000 EMEPAC had had an exclusive contract to purchase all of the seed cotton produced by certified cottonseed producers.

All seed for cotton planting is produced by farmers under contracts with CASP in MALR. Those districts selected to produce seed for planting are specified by Ministerial decree each season. Within these specified districts any farmer, or group of farmers, with a minimum of 15 feddans of cotton can apply for a contract to produce planting seed. The planting seed for the contract farmers in these areas is provided by CASP. These cotton areas are inspected by seed certification experts of CASC and if the cotton is certified for seed use the farmers are paid a small bonus of a slighter higher price on the cotton seed produced. This bonus amounts to only about LE 5-10 per kantar of seed cotton. However, some farmers feel the seed obtained for these plantings is better seed, since it is foundation seed and therefore will likely produce better yields or higher grades.

Prior to 1997/98 the cotton planting seed produced under these contracts was collected by CASP at the gin but the lint was delivered, generally to a public cotton trading company. Thus, CASP never purchased any cotton lint, only the seed.¹¹ Under this seed production program EMEPAC was given permission to purchase 2.1 percent of the total seed cotton in 1997/98, 3.1 percent in 1998/99, and 6.5 percent in 1999-2000.

The SC established a total of 810 rings in the 2000/01 season, one ring for approximately each 500 feddans of cotton in all areas except on lands under the supervision of the Agrarian Reform or the Land Reclamation Co-op Societies. Of this total, 223 rings were assigned to the HSU on the basis that these rings were all producing planting seed. In 2000 the MALR had contracts on approximately 150,000 feddans of cotton for seed production purposes. However, not all of this cotton was certified for seed use. MALR seed inspectors visit these

⁹ In Decree No. 1499/of 28 June 2000 the Prime Minister merged two holding companies, Spinning, Weaving and Ready Made Garments, and Textile Manufacturing and Trade under the title of Holding company for Spinning, Weaving and Ready Made Garments under El Moataz Bellah Abd El Maksoud. This Holding Company directs the operations of all public cotton companies, including exporting, ginning, spinning and weaving, as well as the cotton pressing company.

¹⁰ Dr. Youssef Abdel Rahman, the Director of HSU, was appointed to the Chairmanship of PBDAC in 2000 and also became the Chairman of the Cotton Marketing Supervisory Committee for the 2000/01 season.

¹¹ Information on the former method of operation by CASP was provided by Salah Wanis, former Undersecretary for Seed Certification and currently a consultant to the MALR on seeds.

fields throughout the season and inspect for weeds, purity, etc. In the year 2000 only about 86,000 of the 150,000 feddans were certified for seed production. However the HSU was allocated to receive the seed cotton from the entire contract areas, 150,000 fd. The 64,000 fd. that were not certified for seed were also allocated to HSU supposedly to eliminate the possibility that those growers whose cotton had not been certified for seed production could sell this non-certified seed as planting seed. So in brief, the allocation to HSU was "for seed purposes". EMEPAC was allotted only 9 PBDAC rings in the 2000/01 season. EMEPAC is organized as a private company but it is directed by Dr. Youssef Abdel Rahman, who is also director of PBDAC and HSU. Apparently the major seed cotton activities of EMEPAC were shifted this season to HSU. The SC allocated 225 rings to the HSU, which collected 26 percent of the entire cotton crop.

2.4.4 Allocation of the Remaining Rings

The remaining 585 rings were assigned to traders according to a set of criteria formulated by the SC. A total of eight factors listed below, were reportedly considered in this allocation:

Table 2-3: Weighting of Trading Company Characteristics by the Supervisory Committee Used in Allocating PBDAC Sales Rings

Factor/Company Characteristic	Percent
Average volume of seed cotton in last three seasons	25
Average volume of lint sold to local spinners last three seasons.	15
Average volume of export of lint the last three seasons	15
History of registration (no. of years)	12
Major activity of the company	10
Geographic commitment of the company	13
Carry-over stocks	5
Reputation of the company	5
Total	100

The exact procedures are somewhat vague, but it is clear that the volume of cotton traded in the past three years was a major factor in the allocation. There also was a rule that each trader who requested rings should get at least one ring.

The allocated breakdown of PBDAC rings, by type of participant, is shown in Table 2-4. Public sector trading and ginning companies received 308 rings. The six public trading companies were allocated 257 rings, or an average of 43 rings per company. The three public ginning companies received 57 rings (or 19 on average). Combined with the 225 rings allocated to HSU and the 68 rings allocated to public sector spinning companies, public entities received 601 rings, or 74 percent of the total. While the proportion of rings allocated to public organizations remained about the same as 1999/2000, the massive shift of rings away from public trading companies to HSU was unprecedented. The public cotton trading companies had far fewer rings than in 1999/2000 and earlier years.

Private trading companies and individuals received 209 rings (26% of the total rings), of which 135 went to ALCOTEXA members, for an average of 9 rings per large trader (ALCOTEXA member).¹² This was well below the average allocation to public trading

¹² Note that EMEPAC, nominally private and an ALCOTEXA member, has significant public sector ownership.

companies. The other 74 rings were distributed to two private spinners (13 rings) and 28 companies and individuals (61 rings), with many (20) receiving only one ring each. Overall participation by spinners expanded slightly in 2000/01, as the number of rings allocated rose from 51 in 1999/2000, the first year spinners received sales rings, to 81.

2.4.5 Quota System and Private Sector Protests

This season the SC attempted to impose a quota on each trader, expressed in seed kentars, which was intended to be applied to total purchases of seed cotton, both from the PBDAC rings and through co-operatives. If a private trader had contracts to purchase seed cotton from a co-operative, his allotment of PBDAC rings would be reduced accordingly.

Early in the season the SC attempted to enforce this decision. This ruling would also have prohibited small traders from dealing directly with individual producers. The SC attempted to enforce these decisions by declaring that seed cotton purchased outside the rings would not be graded or ginned or that any trader trading outside of official channels would not be eligible for any subsidy payments.

These rulings unleashed a huge private sector protest of favoritism, arbitrariness, and unfairness resulting in many faxes and appeals to the relevant ministers and officials during late August and early September 2000. A result was that Ministers Wally of MALR and Ghaly of MEFT issued a press release on 26 September 2000 that anyone interested in participating in seed cotton marketing may do so. This press release was a major reversal of the power of the SC and HSU. As a result, private buying rings were established and traders dealt directly with farmers. The activities of the small private traders will be discussed in detail in Chapter 7.

2.5 Operating Rules for PBDAC Rings

The general operating rules of these rings were similar in 2000/01 to those of previous years. Each ring was assigned to one trading company only with no competitive bidding within the sales ring. The buyer agreed to purchase all of the cotton delivered to that ring regardless of grade or time of delivery. The grower was paid 80 percent of the estimated value upon the date of the cotton weighing and the balance after the seed cotton had been graded and ginning out-turn tests performed. Buyers of the seed cotton at these rings had to be registered.

The operating procedures of the PBDAC rings are discussed in detail elsewhere (3,13,15). However, two important operating rules must be mentioned here: a) the company selecting a sales ring agreed to purchase all of the seed cotton delivered; and b) it agreed to pay the official prices. The seed cotton prices paid were those in the official price tables and were based on the variety, the grade, and the ginning out-turn. A CATGO cotton grader graded every sack of seed cotton delivered to the ring and each week one ginning out-turn test was made and applied to all the cotton delivered that week.

2.6 Marketing Charges

The marketing charge at the PBDAC sales rings in the 2000/01 season was LE 7.21/kt. of seed cotton. These charges were established by Decree No. 1030. Of this total, the producer paid LE 3.68, and the buyer paid LE 3.53 (see Table 2-5). This included the charges for

**Table 2-4: Summary of Seed Cotton Allocation and Purchases, by
Source and by Buyer Type**

Type of Buyer	Initial Allocation		Actual Allocation			Purchases from Coops	Purch. Fr. Rings	Deliveries to Gins	Other Purch. Outside Rings Calculated	% Purch. Outside Rings Calc.
Data Source	Comps	Rings	Comps	Rings	Purchases	AR/LR Coop	Co-ops	CATGO		
	PBDAC, Sept. 2000		PBDAC, March 2001							
Public Trading Comps	6	254	6	257	687,197	298,995	986,192	1,013,781	27,589	2.7%
Public Ginning Comps	3	47	3	51	85,204	36,199	121,403	183,915	62,512	34.0%
Subtotal for Public Comps	9	301	9	308	772,401	335,194	1,107,595	1,197,696	90,101	7.5%
Hort. Services Unit	1	225	1	225	911,269	0	911,269	911,269	0	0.0%
Subtotal: Public Buyers (w/o spinners)	10	526	10	533	1,683,670	335,194	2,018,864	2,108,965	90,101	4.3%
Small Registered Traders	29	61	38	61	96,860	0	96,860	199,720	102,860	51.5%
Traders with > 2 Rings	5	34	5	35	52,175	0	52,175	61,574	9,399	15.3%
Traders with 1-2 Rings	24	27	23	26	44,685	0	44,685	84,632	39,947	47.2%
Subtotal, with Rings	29	61	28	61	96,860	0	96,860	146,206	49,346	33.8%
Traders <i>without</i> Rings		0	10	0	0	0	0	53,514	53,514	100.0%
Spinning Companies	10	82	9	81	192,336	1,783	194,119	152,017	-40,319	-26.5%
Public Spinners	7	69	7	68	161,637	0	161,637	112,328	-28,819	-25.7%
Private Spinners	3	13	2	13	30,699	1,783	32,482	39,689	-11,500	-29.0%
ALCOTEXA Members	15	139	15	135	331,397	599,500	930,897	1,018,462	87,565	8.6%
Large Exporters	3	11	3	10	26,667	367,745	394,412	438,686	44,274	10.1%
Middle Size Exporters	6	84	6	83	199,930	231,755	431,685	471,905	40,220	8.5%
Smaller Exporters	6	44	6	42	104,800	0	104,800	107,871	3,071	2.8%
TOTAL for All Ring Holders	64	808	62	810	2,304,263	936,477	3,240,740	3,425,650	186,693	5.4%
of which, Public Comps	17	595	17	601	1,845,307	335,194	2,180,501	2,221,293	61,282	-21.4%
of which, Private Comps w/Rings	47	213	45	209	458,956	601,283	1,060,239	1,204,357	125,411	31.1%
Private Traders without Rings		0	10	0	0	0	0	53,514	53,514	100.0%

Sources: PBDAC, CATGO, Cotton Producers Marketing Cooperatives, Land Reclamation Cooperatives, Agrarian Reform Cooperatives

Notes:

- 1) The data for one small private trading company, the Egypt Company, are included with Modern Nile in ALCOTEXA members, as the Modern Nile group owns this ginning company.
- 2) One spinning company, Alex S&W, was allocated but did not take one ring. It is included in the data for private spinning companies, as it bought seed cotton outside the sales rings.
- 3) Including the Egypt Company, 63 companies bought seed cotton at PBDAC rings and 10 registered buyers without rings delivered seed cotton to the gins.
- 4) Note that the registered traders without rings are not included in the Total for all Ring Holders.

CATGO¹³ classing at the ring and ginning outturn tests, and for weighing but not the costs of the seed cotton sacks. Most buying companies furnished sacks to their sales rings, others paid farmers for their sacks when the cotton was purchased so that farmers did not bear the cost of the seed cotton sacks.

**Table 2-5: Marketing Charges Levied at the PBDAC Sales Rings, 2000/01 Season
(LE/kentar of seed cotton)**

Item	Paid by Producer	Paid by buyer	Total
CATGO overhead	0.45	0.55	1.00
PBDAC overhead	1.75	1.75	3.50
Licensed Weighers	0.42	0.42	0.84
Monitoring of scales	0.005	0.005	0.01
Loading on scales	0.25	0.00	0.25
Management of sales ring	0.50	0.50	1.00
Preparation of reports	0.305	0.305	0.61
Total	3.68	3.53	7.21

Source: Inter-Ministerial Decree 1030 of August 2000.

In addition to the above marketing charges, a charge of LE 1.50 per kentar of seed cotton was assessed for research and technical services. Funds collected for this purpose go to the Minister of Agriculture and Land Reclamation and are allocated at his discretion.

PBDAC required private but not public companies to make a deposit or a bank letter of guarantee of LE 5,000 for each sales ring. These deposits were refunded after all accounts were completed. However, this requirement essentially amounted to an interest-free loan to PBDAC for several months and was a deterrent to some private buyers. Other private buyers accepted this requirement but complained privately about it.

¹³ CATGO is the official government agency for cotton grading. It has responsibility for grading seed cotton at the PBDAC, co-operative and private sales rings and at the gins. CATGO also grades all lint cotton that is exported.

3. COTTON PRODUCTION, 2000-2001

3.1 The Annual Variety Map

Each year the MALR determines and releases the cotton varietal map, which designates the varieties that are permitted to be grown that year in each cotton producing area. The variety boundaries follow the legal boundaries of governorates and districts.

People throughout the cotton sector are invited to provide input on the varietal issue, including public and private traders, scientists, the Cotton Research Institute (CRI) of ARC, and other cotton experts within the MALR. In the end, the varietal map is determined by the Minister of Agriculture and is announced by a decree of the MALR.¹⁴

A number of factors are taken into consideration in this varietal designation, including a) matching of varietal agronomic characteristics with the characteristics of different agro-climatic zones, b) varietal yield capability in different production zones and soil types, c) the quantity and quality of seed available, d) the spinning qualities of every variety available, and e) domestic and international demand for lint cotton. Because of the high seeding rates used in Egypt, the supply of seed is a major concern in the design of the variety map each season.

Another item of concern is the problem of mixing of lint of various varieties. On the one hand, some traders feel it is important to grow many varieties to be able to satisfy the foreign buyers' needs for lint, but on the other side, the greater the number of varieties, the greater the probability that lint of different varieties may become mixed. The lint of each variety has its own unique spinning characteristics, and when lint of two varieties is mixed, spinning becomes difficult and clients (particularly foreign spinners) face technical problems and end up being dissatisfied buyers. Naturally, the probabilities of mixing lint would be reduced with the reduction of the number of varieties grown.

In recent years (1995/96 through 1999/00), Egypt has grown 8-10 varieties. This has included 2 MLS varieties, usually 3-4 LS varieties and 3-4 ELS varieties. Leading cotton experts believe that the optimal number of varieties for Egypt is six, with two ELS varieties and two LS varieties for Lower Egypt and two MLS varieties for Upper Egypt.¹⁵

During the 1997/98 season 10 varieties were grown. By 1999/2000, the MALR had reduced the number of varieties in commercial production to eight by dropping the old standby LS variety, G-75, in 1998/99 and two ELS varieties G-76 and G-77 in 1999/2000.¹⁶ It introduced a new ELS variety, G-88.

In the 2000/01 season the ELS variety G-45, was finally dropped from commercial production. The area of this variety had declined drastically in recent years due to declining international demand. This left seven commercial varieties in the 2000/01 season (ELS = 70 and 88, LS = 85, 86, 89, and MLS = 80 and 83). The ELS and LS varieties are produced in the Delta while the MLS varieties are produced in Upper Egypt.¹⁷ The area of G-88 grown in

¹⁴ The varietal map for 2000 was given in MALR decree No.1752 of 2000.

¹⁵ Personal interview with Ahmed El-Gohary and Mohamed Moghazy, both former directors of the CRI and Hussein Yehia Awad Ahmed, current director of CRI.

¹⁶ All cotton varieties currently grown in Egypt are numbered with Giza as a prefix. In this report Giza will be shortened to G, i.e. G-70 means variety Giza 70. In 2000 the MALR planted 112 fd. of G-45 to maintain a seed supply. The MALR also planted 96 fd. of G-90, a new variety, which may be released in 2001 and 39 fd. of other varieties for seed breeding or multiplication purposes

¹⁷ It is slightly incorrect to label the varieties grown in Upper Egypt (G-80 and 83) as MLS varieties as they have

2000 was small because of the small supply of seed. Hence G-70 was the major ELS variety in 2000/01. The area of each variety planted is given in Table 3-1. Note that the same seven varieties have been planted in 2001/02.

3.2 Excellent Yields and Fiber Quality in 2000/01

The year 2000 was a good year in Egypt for growing cotton. The yields were relatively good and the cotton fiber qualities were also very good. CATGO reports based on HVI tests revealed that the quality of all varieties except G-85 improved significantly in 2000/01 over the previous season. One trader even reported he was exporting better quality cotton than was specified in his contracts, because good cotton was easier to find than poor quality cotton.

3.3 Areas and Production by Variety

Table 3-1 presents data on the area of cotton planted in Egypt during the past seven years (since liberalization of cotton marketing began). These data show that the area devoted to ELS varieties during the past two seasons has been only about 46 percent of the ELS plantings in the period of 1996-98. Similarly, the area devoted to the MLS varieties (80 & 83) has decreased proportionally more than that of the LS varieties. Thus, in the past two years the LS varieties have gained market share.

Table 3-1: Area of Cotton Planted by Variety, 1994-2000

(Year of planting)

Variety	1994	1995	1996	1997	1998	1999	2000*
ELS Varieties							
Giza 45	6,308	5,848	2,931	5,265	9,731	6,141	112
Giza 70	6,491	65,320	102,705	119,931	159,586	72,811	72,004
Giza 76	2,422	8,749	15,165	13,034	6,916	N.G.	N.G.
Giza 77	4,270	22,169	39,19	34,485	26,259	N.G.	N.G.
Giza 84	8,929	N.G.	N.G.	N.G.	N.G.	N.G.	N.G.
Giza 87	N.G.	N.G.	340	N.G.	65	N.G.	N.G.
Giza 88	N.G.	N.G.	N.G.	N.G.	73	1,266	10,599
Subtotal-ELS	8,420	102,086	160,337	172,715	202,630	80,218	82,715
LS Varieties							
Giza 75	454,860	418,986	378,009	198,226	N.G.	N.G.	N.G.
Giza 86	N.G.	4,652	42,488	120,435	249,818	170,553	113,872
Giza 89	N.G.	N.G.	775	9,718	63,223	158,329	128,103
Giza 85	18,221	42,833	146,634	156,342	98,752	130,405	80,879
Subtotal-LS	473,081	466,471	567,906	484,721	411,793	459,287	322,854
MS Varieties							
Dandara	22,689	2,838	N.G.	N.G.	N.G.	N.G.	N.G.
Giza 81	15,089	N.G.	N.G.	N.G.	N.G.	N.G.	N.G.
Giza 80	96,028	111,017	147,702	153,976	70,009	49,091	61,432
Giza 83	15,015	27,329	43,818	47,649	104,230	56,732	51,183
Subtotal MS	148,821	141,174	191,520	201,625	174,239	105,823	112,615
Others	1,121	476	1,148	194	150	89	135
Grand Total	721,443	710,207	920,911	859,255	788,812	645,417	518,319

Source: MALR, Economic Affairs Sector.

staple lengths similar to that of G-85, but they do not have the spinning qualities, or export demand, of the LS varieties produced in the Delta (See price Tables 2-1 and 2-2).

Notes: N.G. = Not grown * = Preliminary. Other varieties are for seed multiplication.

On the other hand, private traders, particularly exporters, generally feel that the area allocated to the ELS varieties should be increased. This decline in the share of the crop planted to ELS is not necessarily a function of cotton markets. Rather, it is determined by the variety committee. Some private exporters reported a shortage of Giza 70 this season. Half of the G-70 sales rings were allocated to the HSU, ostensibly for seed collection purposes, though most private exporters suspected that HSU was trying to capture a large market share of a desirable export variety, for which exportable grades were perceived to be in short supply.

The small area of cotton planted in 2000 was primarily due to the low cotton prices in recent years, with the lowest prices coming last season (See Table 2-2). The low prices resulted in poor returns to cotton in 1999/2000, which discouraged cotton plantings in the 2000/01 season. The area planted in the year 2000 was only 80 percent of the plantings in 1999. Fortunately, the yields of most varieties of cotton and the ginning out-turns were good in 2000/01 and thus total production of lint was only about 5 percent below that of 1999/00 (Table 3-2). Giza 85, which is grown mainly in the governorates of Sharkia and Kafr El Sheikh, gave an average yield of only 5.67 seed kentar/fd., but the ginning out-turn was satisfactory. Still, it yielded about 17 percent below the average of the other LS varieties (G-86 and 89) in the Delta. We cannot be sure if this yield difference was due to the genetic differences of this variety or to climatic or soil differences, since each variety was grown in a different production zone with different characteristics.

Table 3-2: Area, Yield and Production of Seed and Lint Cotton, 1990-2000

Year	Area (Feddans)	Seed cotton (‘000 sk)	Yield of seed cotton (sk/fdn.)	Lint cotton (‘000 lk)	Yield of lint cotton (lk/fdn.)
1990	993,047	5,169	5.21	5,919	5.96
1991	851,283	5,051	5.93	5,826	6.84
1992	840,296	6,006	7.15	7,147	8.51
1993	884,310	6,878	7.78	8,314	9.40
1994	721,443	4,329	6.00	5,095	7.06
1995	710,207	4,062	5.72	4,831	6.80
1996	920,911	5,700	6.13	6,914	7.51
1997	859,255	5,842	6.80	6,841	7.96
1998	788,812	3,986	5.05	4,594	5.82
1999	645,417	3,920	6.08	4,662	7.22
2000*	518,319	3,474	6.70	4,123	7.95

Sources: 1990-1999 from MALR.

*For the year 2000, preliminary area estimates are from MALR. Production estimates from CATGO, 24 Feb. 2001.

Note: Final deliveries to the gins were reported by CATGO as 3,516,000 sk and 4,198,000 lk.

Table 3-3: Cotton Area, Production and Yields by Variety, 2000/01 Season

Variety	Area (fd.)	Production (seed kt)	Production (lk)	Yield/fdn. (seed kt)	Ginning Out-turn	Yield/fd. (lint kt)
70	72,004	454,782	523,920	6.32	1.15	7.28
88	10,599	80,074	95,889	7.55	1.20	9.05
85	80,879	458,557	554,507	5.67	1.21	6.86
86	113,872	774,713	957,232	6.80	1.24	8.41
89	128,103	880,282	1,035,445	6.87	1.18	8.08
80	61,432	411,217	479,922	6.69	1.17	7.81
83	51,183	414,166	476,291	8.09	1.15	9.30
Total	518,184*	3,515,814	4,123,206	6.70	1.19	7.95

*Excluding other varieties listed in Table 3-1.

Sources: Area data from MALR. Production data are preliminary estimates from CATGO (24 Feb. 2001. The final CATGO figures on deliveries to the gins, not broken out by variety, are 3,515,814 sk of input and 4,198,569 lk of ginned output. Using these figures leads to higher average yields of 6.78 sk/fd. and 8.10 lk/fd.

4. MARKETING PRACTICES OF COTTON PRODUCERS

4.1 Marketing Options

In 2000/01, Egyptian cotton producers had several marketing options. Actually all farmers did not have the same options. The GOE established 806 seed cotton sales rings, which were distributed by PBDAC as was described in Chapter II. In addition, farmers were permitted to sell their seed cotton to whomever would make them an offer. Some private cotton traders established their own sales rings where producers could bring their cotton for sale. Private traders and brokers bought cotton directly from farmers in some areas. Various co-operatives also marketed cotton for their members.¹⁸ Thus some co-op members had more options than did other farmers, and farmers producing some varieties had more options than did farmers growing other varieties facing lower demand. In general, growers of ELS and LS varieties in the Delta had more marketing options than did growers of MLS varieties, G-80 and 83 in Middle and Upper Egypt. Farmers' awareness of the options available to them also differed and will be discussed in this chapter.

4.2 Cotton Producers Marketing Survey

4.2.1 Description of Sample Farms

In collaboration with CSPP, the MALR/EAS conducted a survey of 500 cotton producers in five governorates to determine farmers' cotton marketing practices, their opinions, and their knowledge of the marketing system. The survey was administered from late January through mid-February 2001. The sample of producers is described in Tables 4-1 to 4-3. Unless otherwise noted, all of the data reported in tables in this chapter come from the CSPP/MALR producer survey. The sample provided data on farmers who produced six of the seven major varieties grown in 2000. The only major variety excluded from the sample was G-83, which is grown in Upper Egypt. These results will generally be classified by variety.

Table 4-1: Number of Sample Farms in Producers Marketing Survey, by Governorate and by Variety

Governorate	Cotton Variety						Total
	G-70	G-88	G-85	G-86	G-89	G-80	
Beheira	78	12	0	0	78	0	168
Gharbia	0	0	0	122	14	0	136
Dakahlia	0	0	36	0	44	0	80
Sharkia	0	0	50	0	0	0	50
Minya	0	0	0	0	0	66	66
Total	78	12	86	122	136	66	500

We see that farms producing cotton are the usual small farms found in Egypt. Almost one half of these farms (43%) had an average total holding area of less than 2 feddans (Table 4-2)

¹⁸ Farmers who were members of the Agrarian Reform Co-op Societies were required (or at least requested) by their societies to deliver their cotton to their co-ops for marketing by the society. Delivery was possible to 500 local co-ops. Members of the Land Reclamation Co-op Societies could deliver to 53 of their own sales rings or could sell to any other buyer. The Cotton Producers co-op purchased cotton in some areas. More details will be provided in Section 6.2.3.

and 7/8th of these 500 farms had less than two feddans of cotton in 2000 (Table 4-3). For the entire sample of 500 farms the average area of cotton planted was only 2.15 feddans (Table 4-4). This small average size of the cotton enterprise has major implications for cotton marketing. This tells us that even in the year 2000 with a small cotton crop, there were an estimated 240,000 cotton producers in Egypt and each farm was producing an average of only 15.4 seed kentars of cotton. The task of assembling a sizeable amount of cotton is enormous. For example, you need to gather the total production of 35 average farmers to get sufficient cotton to fill one small container (25 mt) for export.

Table 4-2: Number of Sample Farms by Size of Holding

Variety	Size of Holding			
	<2 Fds.	2-3 Fds.	>3 Fds.	Total Sample
G-70	22	25	31	78
G-88	9	2	1	12
G-85	35	17	34	86
-86	75	18	29	122
G-89	37	39	60	136
G-80	35	18	13	66
Total	213	119	168	500
Percent	42.6	23.8	33.6	100

Table 4-3: Percent of Sample Farms by Variety and Area of Cotton Planted in 2000/01

Variety	Area of Cotton Planted			Total
	<1 Fds.	1-2 Fds.	>2 Fds.	
G-70	20.5	61.7	17.8	100.0
G-88	75	25	0	100.0
G-85	30.2	46.5	23.3	100.0
G-86	52.5	33.6	13.9	100.0
G-89	26.4	54.5	19.1	100.0
G-80	54.6	34.8	10.6	100.0

Table 4-5: Percent of Land Planted to Cotton on Sample Farms, by Size of Holding

Variety	Size of Holding			
	<2 Fds.	2-3 Fds.	>3 Fds.	Total Sample
G-70	45.9	51.4	66.7	51.2
G-88	52.9	0	0	52.9
G-85	43.4	39.6	34.3	37.9
G-86	51.1	44.9	39.9	45.4
G-89	34.7	47.3	44.2	40.9
G-80	42.1	37.2	54.2	42.6
Total	42.2	45.4	41.3	42.7

4.4.2 Cotton Yields and Number of Pickings on Sample Farms

As stated above, the yields of cotton throughout Egypt were good in 2000 (Table 4-6). The yields of seed cotton reported by the sample farms differed from those calculated across all farmers in the country producing these varieties but this difference is simply due to sampling.¹⁹

Table 4-6: Average Yields of Seed Cotton Reported by Sample Farms and for all Cotton Grown in Egypt, 2000-2001

Variety	Sample Farms	(seed kentars /fd.)
		All Egypt*
G-70	7.15	6.32
G-88	7.92	7.55
G-85	6.61	5.67
G-86	8.82	6.80
G-89	7.22	6.87
G-80	6.36	6.69
Total	7.35	6.71

*Source : CATGO, Preliminary, based on deliveries to the gins to 24 Feb. 2001.

In Upper Egypt most farmers (74% in Minya) pick cotton only one time. This was the case in 2000 and has also been the case for many years. With the exception of the 66 sample farms from Minya, all of the sample farms are located in the Delta (434 out of 500). In the Delta, only 9 percent of the sample farms reported picking only one time and an equal percent reported picking three times, giving an average number of pickings of two times (Table 4-7).

¹⁹ The sample farmers may tend to bias upward their reported yields out of personal pride. But this bias has no conceivable impact on the subsequently reported results.

Table 4-7: Classification of Sample Farms by Number of Pickings

Variety	One Time		Two Times		Three Times		Average No. Pickings
	No.	%	No.	%	No.	%	
G-70	3	3.9	73	93.6	2	2.6	2.0
G-88	0	0	11	91.7	1	8.3	2.1
G-85	6	7.0	71	82.6	9	10.5	2.0
G-86	3	2.5	109	89.3	10	8.2	2.1
G-89	27	19.9	94	69.1	15	11.0	1.9
G-80	49	74.2	17	25.8	0	0	1.3
Total	88	17.6	375	75	37	7.4	1.9

The results regarding the number of pickings in 2000 are similar to those obtained in previous surveys. In 1996 the farms sampled in Middle Egypt picked an average of 1.32 times (19). That estimate is most comparable with the results obtained here for Minya (1.26 pickings) (Table 4-7). In 1996 the farms producing ELS varieties had an average number of pickings of 2.08. In each of these surveys it was found that farmers in the Delta picked more times than did farmers in Upper Egypt. The number of pickings is also influenced by the weather and by the price of cotton. Following is a summary of the results of this and other various past surveys (15,18,19):

Year	Average Reported Number of Pickings	
	LS Varieties	ELS varieties
1991	1.01	1.82
1992	2.09	2.43
1993	2.07	2.69
1994	1.48	2.00
1996	1.33	2.08
1998	1.32	1.87
2000	1.87	2.00

These results cannot be taken to be conclusive but they do seem to indicate that the number of pickings is related to the price of cotton. This is true for both the LS and the ELS varieties.

The survey results in Table 4-8 indicate that in Upper Egypt (variety Giza 80 in Minya) the yield from a second picking is very small, contributing only 5 percent of total output with the first picking producing 95 percent. In the Delta the first picking produces about 70 percent of the total seed cotton, the second picking produces about 28 percent and the third picking only 2 percent.

**Table 4-8: Average Quantity of Cotton Obtained from Each Picking
(kentar/fd.)**

Variety	Yield of 1st Pick	Yield of 2nd Pick	Yield of 3rd Pick	Average Total Yield
G-70	4.86	2.22	0.07	7.15
G-88	5.43	2.35	0.14	7.92
G-85	4.54	1.87	0.20	6.54
G-86	6.31	2.34	0.17	8.82
G-89	5.10	1.85	0.27	7.22
G-80	6.03	0.33	---	6.36
Total	5.38	1.83	0.14	7.35

4.4.3 Producers' Knowledge of Marketing Options

Tables 4-9 to 4-11 present the survey results regarding farmers knowledge of the 2000/01 cotton market season. As was reported two years ago (15, Table 3-13) almost all farmers learned about prices of cotton only at harvest time or when they sold their cotton. Actually, HE Minister of Agriculture Wally announced in February 2000 that seed cotton prices would be LE 50/kt. above those of the previous season in Upper Egypt and LE 30/Kt. higher in the Delta. In late August of 2000 he announced that seed cotton prices for the 2000/01 season would be LE 50/kt. higher than the prices of the previous season for the entire country. Hence, producers should have had some knowledge of prices far before the harvest season but of course they cannot not know the exact price they will receive until it is actually sold, since the price is partially based on grade and ginning outturn.

Producers reported obtaining price information from a variety of sources with an average of 1.8 sources reported per farmer (Table 4-10). The most frequently mentioned source was, logically, the cotton buyer. This source was mentioned by 45 percent of the producers. The next major source of price information mentioned was the extension agent (27%), then other farmers (24%) and then the co-op (22%).

**Table 4-9: When did Cotton Producers Learn About this Season's Cotton Price?
(percent of farms)**

Variety	Before Planting	During Growing	Before Harvest	At Harvest Time	At Time of Sale
G-70	0	2.6	20.5	26.9	64.1
G-88	0	25.0	16.7	16.7	100.0
G-85	8.1	5.8	7.0	38.3	81.3
G-86	6.7	16.7	12.5	25.8	55.8
G-89	0.7	7.4	11.8	31.6	54.4
G-80	1.5	12.1	6.0	40.9	74.2
Total	3.4	9.6	11.8	31.4	64.4

Table 4-10: From Whom Did Cotton Producers Obtain Cotton Price Information this Season?

Source of Information	Varieties							(no. of farms)
	G-70	G-88	G-85	G-86	G-89	G-80	Total	
Extension Agent	7	0	23	40	34	32	136	
PBDAC	19	0	20	23	28	13	103	
Co-op.	7	1	14	54	22	14	112	
Traders	7	0	11	9	25	4	56	
Other Farmers	17	9	24	23	21	27	121	
Newspapers	5	2	6	21	23	16	73	
MALR	4	0	4	23	23	1	55	
From buyer	36	3	45	35	67	41	227	
Total	102	15	147	228	243	148	883	

Note: Some producers gave multiple responses.

Most cotton producers knew that they could sell their cotton at PBDAC rings (88%) or to co-ops (76%), or to private traders (73%) (Table 4-11). The percent with knowledge of private sales rings was quite low (48%), because private rings were not available in all areas and at the start of the season even the private traders were not sure that they could operate such rings.

Table 4-11: Producers' Knowledge Regarding to Whom They Were Permitted to Sell their Cotton this Season

Possible Buyer	Varieties							(percent who reported YES)	
	G-70	G-88	G-85	G-86	G-89	G-80	All Varieties (YES)%	NO (%)	Don't Know (%)
PBDAC Rings	96	83	100	100	100	65	87.8	9.6	2.6
Private Rings	40	100	38	100	30	21	48.3	30.6	21.0
Co-ops.	91	100	70	100	58	100	76.4	17.6	6.0
Private Traders	58	67	100	100	76	45	73.1	21.2	5.7
Anyone I Choose	35	58	35	98	64	42	64.9	25.2	9.9

4.4.4 Market Activities

Tables 4-12 to 4-22 describe the marketing of seed cotton by the sample farmers. Table 4-12 describes in detail the number of farmers in each size category selling to each category of buyer and by variety. These data are summarized in Table 4-13 on a percentage basis. We see that all growers of Giza 88 in our sample were required to sell their cotton to the Horticultural Services Unit (HSU). This cotton most likely was produced under contract with the MALR for seed planting purposes. A considerable number of the farms growing Giza 70 and 80 also had similar contracts.

Table 4-12: How Sample Farmers Sold their Cotton
(number of farms reporting)

Variety	Area of Cotton Planted	PBDAC Sales Rings	Private Traders	Co-ops	HSU	Total
Giza 70	Less than 1 fd.	5	0	0	11	16
	1-2 fd.	17	5	0	26	48
	More than 2 fd.	5	4	0	5	14
	All Farms	27	9	0	42	78
Giza 88	Less than 1 fd.	0	0	0	9	9
	1-2 Fd.	0	0	0	3	3
	More than 2 fd.	0	0	0	0	0
	All Farms	0	0	0	12	12
Giza 85	Less than 1 fd.	12	14	3	0	29
	1-2 fd.	29	19	6	1	55
	More than 2 fd.	15	9	7	0	31
	All Farms	56	42	16	1	115
Giza 86	Less than 1 fd.	24	6	36	0	66
	1-2 fd.	24	3	15	0	42
	More than 2 fd.	11	5	5	0	21
	All Farms	59	14	56	0	129
Giza 89	Less than 1 fd.	21	4	13	0	38
	1-2 fd.	46	28	9	0	83
	More than 2 fd.	18	9	0	0	27
	All Farms	85	41	22	0	148
Giza 80	Less than 1 fd.	11	0	5	20	36
	1-2 fd.	8	0	5	10	23
	More than 2 fd.	1	0	0	6	7
	All Farms	20	0	10	36	66
Total Sample						
Less than 1 fd.		73	24	57	40	194
1-2 fd.		124	55	35	40	254
More than 2 fd.		50	27	12	11	100
All Farms		247	106	104	91	548

We see that all varieties of cotton except G-88 were sold at PBDAC rings, and also that co-operative societies were involved in sales of all varieties surveyed except G-70 and G-88. Private traders bought no G-88 or G-80, but they were most active in buying G-85. All sample farmers producing G-88 were required to sell their cotton to HSU. This was not true for all growers of G-88. The fact that some totals exceed 100 percent implies that farmers sold cotton to more than one type of buyer. This was particularly true in the case of G-85.

In these tables the sales to the HSU are reported in a separate category. In the marketing system this cotton was delivered and sold through the PBDAC sales rings. Adding these two categories together shows that about 2/3^{rds} (67%) of the sample farmers sold seed cotton through the PBDAC rings. As will be shown later, it seems that the sample did not exactly represent the entire country, but an exact duplication cannot be expected. Also the data in Table 4-13 is based on a percentage of farmers who sold cotton, whereas at the national level we are looking at a percent of the cotton sold. For example, the percentage of sample farms

who marketed cotton at PBDAC rings is reported here as 67 percent, where as for the entire country nearly 64 percent of the seed cotton was sold at these rings. The share of the sample farms selling at co-ops was only 21 percent whereas 27 percent of the seed cotton in Egypt was sold through co-ops. This difference is due to the fact that the Agrarian Reform and Land Reclamation co-op societies account for most of the co-op sales of seed cotton in the country and these farmers are located in only specific areas. Thus our sample was not completely representative on a geographic basis. In the survey, 21 percent of the sample farms reported selling some seed cotton to private traders. For the country as a whole about 9.5 percent of the seed cotton was sold to private traders.

Table 4-13: Summary of How Sample Farmers Sold their Cotton.
(percent of farms)

Variety	PBDAC Sales Rings	Private Traders	Co-ops.	HSU	Total
G-70	34.6	11.5	0.0	53.9	100.0
G-88	0.0	0.0	0.0	100.0	100.0
G-85	65.1	48.8	18.6	1.2	133.7
G-86	47.5	12.3	46.7	0.0	106.6
G-89	62.5	30.2	16.2	0.0	108.8
G-80	30.3	0.0	15.2	54.6	100.0
All Farms	49.2	21.4	21.0	18.2	109.8

Note: Total percentages over 100 indicate that farmers sold to more than one buyer

The data in Table 4-14 show that sample farmers growing all six varieties received some offers to purchase their cotton from private traders, even those who grew G-80 and 88, although none of the sample farmers growing these varieties sold to private traders.

Table 4-14: Did You Receive Offers for your Cotton from Private Traders Outside the Sales Rings?

Variety	Percent Reporting YES
G-70	20.5
G-88	16.7
G-85	73.3
G-86	40.2
G-89	52.9
G-80	24.2
Total	43.6

Average prices received by the sample farmers for their cotton are reported in Table 4-15 by type of buyer. Sales to the HSU should be at the same prices as all other sales in the PBDAC rings, for the same variety, since all of this cotton purchased by HSU passed through the PBDAC rings. Differences are of course possible due to differences in grade and ginning outturn of the cotton. Prices paid at the co-op rings should be also similar to those paid at the PBDAC rings, since the co-ops also used the official price tables with minor exceptions. However, private traders were not bound by any official price tables, but they did have to be competitive in their offers. The official price tables were considered by the trade and by farmers as minimum guaranteed prices. Note that there is no consistent difference between the prices paid by the private traders and those paid by others. The private trade did appear to

pay higher prices for Giza 70. We will see in Chapter VI that this price difference for Giza 70 was also reported by the large private traders.

For comparison sake, Table 4-15 also includes the average official prices for seed cotton for a grade of Good+1/4 and for a ginning outturn of 118. This grade and outturn is not exactly the average grade and outturn reported for all varieties but is used for simplicity's sake. Hence, we see that most of the differences in prices between varieties reported by the sample farmers was due to differences in the official prices by varieties.

**Table 4-15: Average Price Received for Seed Cotton, by Variety and Type of Buyer
(LE /seed kantar)**

Variety	PBDAC Sales Rings	Private Traders	Co-ops	HSU	Sample Average*	Average Official Price
G-70	451.2	477.7	0	449.7	457.0	464.5
G-88	0	0	0	450.9	450.9	445.2
G-85	390.1	377.4	390.6	375	387.3	386.4
G-86	453.6	446.3	452.1	0	450.7	423.5
G-89	401.8	412.9	397	0	404.6	397.1
G-80	331.2	0	351.2	351.2	344.5	369.1

* Weighted average based on quantity of cotton sold.

Traditionally, farmers know very little about the grade of their cotton. Two years ago we asked 520 farmers if the quality of their cotton affected the price received and 1/3rd didn't know if it did, and only 29 percent thought that quality had a lot of influence on the price (15, Table 3-20). In this study we asked the identical question and received similar responses. *In this survey 43 percent of the sample farmers said they didn't know if quality affected the price, 17 percent said it had little effect, 20 percent said it had some effect, 10 percent said it had a large effect and 10 percent did not respond.* These results clearly indicate that cotton producers are not receiving a clear signal from the market that quality and price are related. Without this signal, producers will see no incentive to produce better quality cotton.

In this survey we also asked the farmers if they knew the grade of their cotton when it was sold. Of those farmers who sold at PBDAC rings, 86 percent reported that they knew the grade of their cotton. Among those selling at co-ops, only 69 percent could report a grade and for those selling to HSU only 46 percent could report a grade. Of the farmers selling to a private trader only 40 percent could report a grade. Overall, 74 percent of the farmers could report the grade of their cotton. The lower percentage reported for sales to private traders is understandable since unregistered private traders purchase cotton from farmers without grading and grade it later at the gin.

The survey data indicated that almost all farmers sell their cotton immediately after picking (Table 4-16). This result could be expected since farmers pay out large sums of money to hire people to pick cotton. These people expect to be paid immediately and hence the farmer needs to sell the cotton quickly to get the cash to pay these workers.

Table 4-16: Did You Sell Cotton Immediately after Picking, or Did You Store It?

Variety	Farmers		Farmers		Total Sample
	who sold immediately		who stored seed cotton		
	No.	%	No.	%	
G-70	68	87.2	10	12.8	78
G-88	12	100.0	0	0.0	12
G-85	81	94.2	5	5.8	86
G-86	119	97.5	3	2.5	122
G-89	129	94.9	7	5.2	136
G-80	65	98.5	1	1.5	66
All Farms	474	94.8	26	5.2	500

Farmers who sold at PBDAC rings did so mainly because they felt they would get paid the correct price and the weighing must be accurate (Table 4-17). This implies that farmers do not trust other traders. The second major reason given for selling at PBDAC rings was because the sales rings were close to them. This is important to farmers because many must hire transport to deliver their cotton to the sales ring. Almost 1/3rd of the farmers who sold at the PBDAC rings (31%) said they did so to pay off PBDAC loans. Officially, farmers do not have to sell at PBDAC to repay loans, but we don't know if these 31 percent of the farmers voluntarily made this choice or if local PBDAC officials pressured farmers to follow this practice.

Only 56 percent of the farmers reported that they received the official prices at the PBDAC rings, and only 53 percent reported that they paid selling fees. In fact, all sales at PBDAC rings are at official prices and all sellers pay the same marketing fees. Thus, these results again indicate farmers' general lack of knowledge of the marketing process.

Table 4-17: Details Regarding Seed Cotton Sold at PBDAC Rings

Variety	No. of Farms	Average No. days waited for payment	Paid Selling fees (percent)	Used Official Prices (percent)	Reasons for selling at PBDAC rings (no.)			
					1	2	3	4
G-70	27	30	26.8	63.4	8	11	20	2
G-85	33	17	59.3	31.5	13	15	6	20
G-86	53	10	61.3	61.3	10	19	26	20
G-89	74	30	58.9	62.6	32	44	22	9
G-80	20	6.5	34.3	57.1	1	15	8	11
Total	207	20.3	52.6	56.4	64	104	82	62

Reasons sold at PBDAC Rings: 1 = To repay loans at PBDAC.

2 = To ensure the correct price and weight. 3 = The ring was nearby; traders were not.

4 = Sometimes the price is better because they test for outturn.

Note: No Giza 88 was sold at PBDAC rings; it was all sold to HSU.

Note that farmers waited an average of 20 days to receive their full payment on cotton sold at the PBDAC rings. The official rules called for payment of 80 percent of the value at the time of sale and the balance after the ginning outturn tests were completed. The Decree for the Optional Cotton Marketing System stated that farmers selling at rings would be paid the

balance of what they were owed (up to 20%) within two working days. This proved to be an unrealistic expectation, given payment delays of up to 30 days.

Most of those farmers who sold their cotton to a co-op (73%) were selling to their cotton producers association, which was a purely voluntary sale (Table 4-18). As shown above, none of the sample farmers who grew the varieties Giza 70 or 88, the ELS varieties, sold to co-operatives. Of those farmers who sold their cotton to a co-operative, the main reason for doing so was that they were accustomed to sell to their co-op, but an important second reason stated was that they were paid a good price.

Table 4-18: Details Regarding Seed Cotton Sold to Co-operatives

Variety	No. of Farms	Type Co-op.		Average No. Days Waited for Payment	Paid Selling Fees (%)	Used Official Prices (%)	Reasons for Selling to Co-operatives			
		1	2				1	2	3	4
G-85	8	4	4	9	12.5	62.5	3	0	1	3
G-86	55	52	3	7	51.1	51.1	7	41	12	32
G-89	20	10	10	16	54.3	11.4	3	18	5	9
G-80	10	2	8	6	33.4	53.3	3	6	3	3
Total	93	68	25	9.1	48.3	41.5	16	65	21	47

Reasons sold to co-operatives:

1= Commissions are less than at the PBDAC.

2 = We are used to selling to the co-op.

3 = Numerous reasons

4 = The price is better and we can benefit from any later Government price increase.

Type of co-op:

1 = General Agricultural Co-op Association for Cotton Producers

2 = Agrarian Reform Co-op

Those farmers selling at co-ops did much better than those selling at PBDAC rings in terms of receiving full payment (only 9 days average wait instead of 20 days). The fraction of the farmers who reported receiving full official prices (42%) and paying selling fees (46%) was less than among those who sold at PBDAC rings. This could reflect reality since the producers co-op societies operated more like private traders, especially in terms of selling fees, but it was reported that these co-ops did use official CATGO graders.

Those farmers selling to the HSU fared poorly in terms of the speed at which they received full payment for their cotton (average of 45 days, Table 4-19). Most of them (76%) reported correctly that they had no choice as to the method of their sale. All of these farmers were paid according to official prices and with official selling costs, although only about half of them were aware of this.

Table 4-19: Details Regarding Seed Cotton Sold to Horticultural Services Unit

Variety	No. of Farms	Average No. Days Waited for Payment	Paid Selling Fees (%)	Used Official Prices (%)	Reasons for Selling to HSU (No.)		
					1	2	3
G-70	42	57	37.4	75.9	43	9	2
G-88	12	58	53.3	80.0	14	1	0
G-80	36	30	58.6	37.9	11	24	23
Total	90	44.8	48.8	59.1	68	34	25

Reasons for selling to HSU:

1 = Compulsory delivery to fulfill contract.

2 = Price is higher.

3 = We trust them.

Note: No G-85, 86 or 89 were sold to HSU.

Almost all of those 106 sample farmers who sold to private traders received full payment immediately. Most of the private traders were buying independently, as far as the farmer knew, but many were known to be agents of other traders. Prices were negotiated in over half of the cases (58%). Farmers sold to private traders mainly to get money immediately, most likely to pay their hired workers, or because they thought they were getting a good price. Also, only 8 percent of farmers reported that this cotton sold to private traders was officially graded at the time of the sale.

Table 4-20: Details Regarding Seed Cotton Sold to Private Traders

Variety	Average no. Days Waited for Payment	Type of Trader			Prices were Negotiated	Reasons for Selling to Private Traders (No.)		
		1	2	3		1	2	Other
G-70	1	2	7	0	69.2	8	2	3
G-85	1	2	11	4	51.6	17	14	0
G-86	2	6	1	0	22.2	6	2	1
G-89	4	13	16	1	66.7	16	27	2
Total	2.5	23	35	5	58.2%	47	45	6

Type of trader:

1 = Agent of some cotton company.

2 = Private

3 = Don't know

Reasons sold to private traders:

1 = To get money immediately, sometimes in advance.

2 = No transport costs, prices better for low grades.

3 = Various including need the money, closer than PBDAC.

Note: No G-80 or G-88 were sold to private traders.

Of all sample farmers, 32 percent reported that they preferred to sell at the PBDAC rings, 31 percent preferred an auction market, 30 percent preferred to deal with a private trader and 24 percent preferred to deal through a co-op (Table 4-21). This totals over 100 percent but some farmers might logically have chosen an auction market and any of the other methods also. In fact, to our knowledge, no auction markets currently exist for seed cotton.

It is no surprise that about 3/4ths of the farmers (74%) reported that prices were better this season than they were last season. Some farmers may have received a lower price this season because their cotton was of a lower quality. A second possibility is that this season they were producing a lower valued variety of cotton, since the area producing Giza 70 was diminished in size. Also, many very small farmers have all of their land in the same crop to fit the rotation of their village, and hence some years they grow only cotton and the next year they do not grow any cotton. Hence, they may have grown cotton this season but not last season.

Table 4-21: Preference of Marketing Method and Opinions Regarding Prices

Variety	No. of Farms	Future Preferred Method of Selling				Opinion Regarding Prices this Year		
		1	2	3	4	1	2	3
G-70	78	20	47	3	10	23	33	22
G-85	86	38	18	14	29	5	4	74
G-86	122	50	22	69	28	2	3	117
G-88	12	0	7	0	5	6	1	5
G-89	136	38	53	14	52	11	31	94
G-80	66	14	2	21	31	8	2	56
Total	500	160	149	121	155	55	74	368

Codes for preferred method of sale:

1 = PBDAC

2 = Private trader

3 = Co-op

4 = at an auction

Codes for opinions:

1= lower than last season

2 = similar to last season

3 = better than last season

5. TRADING OF SEED COTTON AT PBDAC SALES RINGS

5.1 Allocation of the PBDAC Sales Rings, 2000-01

The general rules for allocation of the PBDAC rings were discussed above in Chapter 2. Here we will present a tabulation of the initial distribution of these rings and the quantities of cotton sold through these rings during this season. Table 5-1 shows the initial allocation of the rings to types of traders, by governorate, and by variety. Details regarding the amount of cotton received by these major traders are provided in Chapter 8.

The increase in the number of firms receiving rings was partially due to the allocation system but also due to the rules on subsidies. The SC had ruled that if any firm bought seed cotton outside of the official rings they would lose the government subsidy. Hence, some of the larger private companies made agreements with smaller private companies or individual private traders whereby some of the smaller traders purchased seed cotton only through official channels, so that they would be eligible to receive any available subsidies, while other small private firms traded directly with farmers outside of the rings. Both groups of small traders then resold this seed cotton to the larger private firms.

5.2 Sales of Seed Cotton by PBDAC Rings

We reported above that the HSU was allocated 225 rings (27.8 percent), but in Table 5-3 we see that the HSU actually received 39.8 percent of the cotton delivered to all PBDAC rings. The large difference between these two percentages is due to the fact that the HSU received the cotton from those rings designated for seed producers. These growers were compelled to deliver their cotton to these rings. At other PBDAC rings the farmers were free to sell their cotton outside of the PBDAC rings and many did so. They sold their cotton to their General Agricultural Co-op Association for Cotton Producers, at private rings or directly to private traders instead of delivering it to the PBDAC rings. Farmers sold to these other buyers to obtain a higher price, since the PBDAC rings were paying strictly the official prices while the co-ops and private traders generally paid premiums over and above these official prices.

In the case of some varieties, the HSU received much higher shares of the delivered seed cotton. For example, 62.4 percent of the G-88 and 56.2 percent of G-70 (the only two ELS varieties) collected at PBDAC sales rings were bought by HSU. HSU purchases represented 35% of the Giza 70 crop and 55.5% of the Giza 88 crop. The large percentage of production of G-88 allocated to seed production is understandable since it is a new variety that will be expanded next season. It is doubtful, however, that 35 percent of the G-70 needs to be allocated for seed production. The allocation of such large numbers of rings to HSU had implications for the domestic and export marketing. This allocation put the bulk of the ELS lint in the hands of the public firms, and as we will see in Chapter 11, gave the ELS market largely to the public sector.

**Table 5-1: Initial Distribution of PBDAC Seed Cotton Sales Rings by Type of Buyer,
Governorate and by Variety, 2000/01 Season**

Governorate	Variety	Public Trading Cos.	Private ALCOTEXA Members	Other Private Traders	Public Ginning Cos..	Public Spinning Cos.	Private Pinning Cos.	HSU	Total
No. of Cos.		6	15	29	3	7	3	1	64
Alexandria	G-70	1							1
Behira	G-70	8	13	5		5	1	31	63
	G-88	5						6	11
	G-89	29	19	8	5	10	0	0	71
	Total	42	32	13	5	15	1	37	145
Gharbiya	G-86	11	16	4	2	11	1		45
	G-89	2	9	2	3			6	22
	Total	12	24	8	5	11	1	6	67
Kafr El Sheikh	G-70							1	1
	G-88							1	1
	G-85							1	1
	G-86	26	15	7	7	4	1	50	110
	G-89							1	1
	Total	26	15	7	7	4	1	54	114
Daqahliya	G-85	15	6	2	1	8	1	5	38
	G-89	17	5	2	1				25
	Total	32	11	4	2	8	1	5	63
Damietta	G-85	2							2
	G-89	18			1		2		21
	Total	20			1		2		23
Sharkia	G-85	34	14	10	18	7	3	25	111
Ismailia	G-85		2						2
Port Said	G-85		1						1
Menofiya	G-89	9				7	1	28	45
Qalubiya	G-85	6		3				8	17
Beni Suef	G-80	23	7	6	4	1		2	43
Fayoum	G-83	16	12	8	2		1	0	39
Minya	G-80	12	6	2	1	8	1	24	54
	G-83	1							1
	Total	13	6	2	1	8	1	24	55
Assuit	G-83	9	3	2	2	7	1	29	53
Sohag	G-83	10	10	1		1	0	7	29
Grand Total	G-70	9	13	5		5	1	32	65
	G-88	5						7	12
	G-85	57	23	15	19	15	4	39	172
	G-86	37	31	11	9	15	2	50	155
	G-89	75	33	12	10	17	3	35	185
	G-80	35	13	8	5	9	1	26	97
	G-83	36	25	11	4	8	2	36	122
	Total	254	138	62	47	69	13	225	810

Source: PBDAC

Note: 1) The distribution of sales rings by varieties and companies provided by PBDAC was based on 808 rings. PBDAC later reported a total of 810 sales rings but did not furnish a correction of the distribution of these rings by variety and company. These 810 PBDAC rings were allocated among a total of 63 companies. The large number of firms receiving an allocation of rings is an outstanding feature of this season. This total includes 16 public companies and 47 private companies or individual traders and far exceeds the number of firms buying seed cotton at PBDAC rings in previous years (see Table 5-2). 2) HSU was allocated two Giza 80 rings in Beni-Suef for which no corresponding area (in feddans) was specified.

Table 5-2: Number of Firms or Individuals Actually Buying at PBDAC Sales Rings

Market Season	Number of Public Firms	Number of Private Firms or Individuals	Total Number
1994-95*	11	1	12
1996-97	11	0	11
1997-98	9	3	12
1998-99	9	8	17
1999-00	13	13	26
2000-01	17	45	62

*The collection centers were all operated by co-operative societies in 1994/95.

Sales at PBDAC rings in 1995/96 were very minor. Data for 1996/97 and later years refer to sales at PBDAC rings. Two public gins were privatized during the 1996/97 season

Table 5-3: Quantities of Seed Cotton Traded in PBDAC Sales Rings, by Type of Buyer, by Variety, 2000-01 Season

Variety	Public Trading Cos.	Private Alcotexa Members	Other Private Traders	Public Ginning Cos.	Public Spinning Cos.	Private Spinning Cos.	HSU	Total
G-70	53,795	37,810	10,899	0	19,349	2,748	159,829	284,443
G-88	19,383	7,431	0	0	0	0	44,470	71,284
G-85	109,436	53,510	20,950	11,153	29,803	13,858	97,690	336,400
G-86	120,116	53,376	4,968	12,842	17,720	5,694	171,245	385,961
G-89	197,396	101,554	24,479	28,248	58,347	5,193	143,573	558,790
G-80	78,863	20,970	14,624	13,457	17,068	1,250	152,972	299,204
G-83	108,208	53,268	24,418	19,504	19,350	1,956	141,490	368,194
Total	687,197	327,919	100,338	85,204	161,637	30,699	911,269	2,304,263
Percent	29.8	14.2	4.4	3.7	7.0	1.3	39.5	100.0

Source: PBDAC, 10 March 2001 faxed data. These numbers are, for all intents and purposes, final.

There may be slight changes in any final tabulation.

6. TRADING OF SEED COTTON BY CO-OPERATIVES

6.1 Historical Perspective

Prior to 1994/95, the three major co-operatives had managed all cotton collection centers in Egypt for many years, not buying the cotton but acting as agents for the six public-sector trading companies²⁰. During that period each public company received a similar share of the seed cotton. In 1993/94 the co-ops operated about 2,000 cotton collection centers.

During 1994/95, the first year of liberalization of cotton marketing, the co-operatives continued to function as collection agents. Some co-ops were agents for private traders while other co-ops were agents for public companies. Two private companies, Al-Ahly and Nefertiti, purchased 41.7 percent of the crop through the Agrarian Reform and Land Reclamation co-operatives that season (6, Table 1-3).

In 1995/96 the cotton producer's credit co-operatives lost their role in cotton marketing. By governmental decree, the management of the collection centers, or sales rings, was transferred to PBDAC. However, the Agrarian Reform (AR) and Land Reclamation (LR) Co-op Associations were permitted to continue as agents for their members. This arrangement has continued since 1995/96, including the 2000/01 season. The producers or credit co-operatives do not have the same legal status as do the AR and LR societies when it comes to cotton marketing. As we will see below, the producers co-ops must compete with the PBDAC sales rings for seed cotton, while the PBDAC rings do not operate in the areas of the AR or LR co-ops.

6.2 Co-op Activities in the 2000-01 Season

6.2.1 Agrarian Reform Co-ops

The AR society provides inputs to its members on credit and thus asks its members to deliver their cotton to the co-op stores. This society claims that it markets the cotton for its members and sells to the highest bidder. The producers in this co-op grew a total of 143,345 fd. of cotton and produced 603,816 kt. in the 2000/01 season. The AR co-ops received 462,305 kt. (77%) of the seed cotton produced by its members (Table 6-1). It sold 44 percent to Modern Nile (Arabia Ginning is owned jointly by Modern Nile and the AR co-ops.), nearly 9 percent to ATICOT, and the remaining 47 percent to six public companies (4 trading companies and 2 public gins). This cotton was all graded by CATGO. The premiums paid by these companies, and passed on to the farmers, averaged LE 7/kt. for LS varieties and LE 10/kt. for ELS varieties.

²⁰ There are three major groups of co-operatives. Credit co-operatives are found in practically every village that does not have an Agrarian Reform Co-op or a Land Reclamation Co-op. The credit co-operatives are subdivided by crop, hence, the sales of seed cotton are handled by the cotton producers credit co-op. The Agrarian Reform Co-op has 400,000 farmer-members and 700 local societies throughout Egypt. It owns 17 % of the shares of the Arabia Ginning Company. The Land Reclamation Co-ops have 45,000 members in several governorates. All other cotton producers are members of the cotton producers credit co-ops.

Table 6-1: Seed Cotton Sales by Agrarian Reform Co-ops, by Buyer and Variety, 2000-01

(seed kentars)

Company	Varieties							
	G-70	G-88	G-85	G-86	G-89	G-80	G-83	Total
Modern Nile	29,664	478	20,107	40,731	55,839	9,161	9,531	165,511
Arabia Gin.	6,411	0	406	8,554	14,111	5,094	2,823	37,399
ATICOT	9,091	0	8,523	0	11,903	5,489	4,863	39,869
Alex. Comm	7,986	5,058	7,142	10,621	20,016	5,043	960	56,826
MISR	3,715	0	2,313	3,392	4,208	1,553	292	15,473
Port Said	9,125	3,157	7,274	10,306	19,003	4,318	1,500	54,683
El-Kahira	9,765	6,258	7,384	9,734	18,078	4,151	975	56,345
Delta Gin.	3,400	0	2,074	3,523	7,187	1,699	244	18,127
El Wady Gin.	3,742	0	2,286	3,538	6,965	1,541	0	18,072
Total	82,899	14,951	57,509	90,399	157,310	38,049	21,188	462,305

Source: Agrarian Reform Cooperatives.

6.2.2 Land Reclamation Co-ops

Members of the LR co-ops produced about 240,000 kt during the 2000/01 season. This co-op also received 77 percent of the seed cotton produced by its members (Table 6-2). During this season the LR co-op societies followed the same procedures as did the PBDAC sales rings in terms of marketing charges and CATGO grading procedures. The LR general society sold seed cotton to five companies, two private and three public. These five companies paid an average premium over the official prices of LE 6/kt., which was passed on to the producers. These companies also provided cash advances equal to 50 percent of the estimated value of the crop as operating capital for the co-ops. The balances were paid in installments after the cotton was weighed, graded and delivered. These five companies selected the areas from which they would receive cotton but were then required to accept all grades of cotton delivered.

Table 6-2: Sales of Seed Cotton by the Land Reclamation Co-operative Societies, by Varieties and by Buyer, 2000-01 Season

Variety/Company		Kentars
Co-op Sales	G-70	21,773
	G-85	15,512
	G-86	73,307
	G-89	51,999
	G-80	21,183
	Total Sales	183,774
Buyer	Nassco	36,474
	Modern Nile	31,632
	MISR	34,527
	Alcotan	46,967
	Eastern	34,174
	Total Purchases	183,774

Source: Land Reclamation Cooperatives.

6.2.3 Cotton Producers' Credit Co-ops

As reported earlier, this group of co-ops played a major role in cotton marketing prior to 1995. It re-entered the seed cotton market in 1999/00 with sales of 256,241 kt., which it sold exclusively to private firms. In late July 2000 this group of co-ops had signed contracts with the holding company and five private traders to provide them a total of 1.7 million kentars of seed cotton. This would have represented a major share of the crop, and a major return of this group of co-ops to the cotton market.

However, most of the private companies abandoned these agreements after the SC announced the rules for allocation of rings and purchasing of the seed cotton crop this season. These companies cancelled their contracts because they feared losing the subsidy payments that were being considered by the Government. Early in the season the SC had ruled that if any trading company purchased cotton in any manner other than through the official sales rings, the companies would not qualify for any possible subsidy payments. No subsidies were ever paid in the 2000/01 season but the threat of losing large subsidy payments almost put these co-ops out of the market for this season.

As stated above, the SC did not allocate any sales rings to this group of co-ops, as were the other two groups of co-ops or as private traders. These co-ops had to establish their own rings to compete with the PBDAC sales rings for seed cotton. In the areas where the AR and LR co-ops operate there were no PBDAC rings. The SC did not consider the sales rings of the producer co-ops as official rings by the SC and thus would not have been eligible for any price subsidies.

Later in the season, after the Ministers had publicly announced that all companies were free to trade seed cotton, the credit co-ops made new agreements with some private companies. The credit co-ops paid farmers an average of LE 6/kt. over the official price tables. All of this cotton was resold as seed cotton, and all was sold to private traders except a small amount sold to the Giza Spinning and Weaving Co. (Table 6-3).

Table 6-3: Sales of Seed Cotton by General Agricultural Co-op Association for Cotton Producers, 2000-01 Season

(seed kentars)

Company	Varieties					
	G-70	G-85	G-86	G-89	G-83	Total
El-Mabrouk		17,568	60,860	26,297		104,725
Talaat Harb		17,605	31,853	5,549		55,007
Nassco	22,751		34,853	15,287		72,891
Tanta			18,332	1,585		19,917
Modern Nile		4,663	16,946		2,229	23,838
Nile Ginning					12,237	12,237
Giza S. & W.					1,783	1,783
Total	22,751	39,836	162,844	48,718	16,249	290,398

Source: Cotton Producers' Marketing Cooperatives.

6.3 Summary of Co-op Sales of Seed Cotton

About 2/3rd of the sales of seed cotton by all co-ops went to private firms and 1/3rd to public firms (Table 6-4). Note that the sales strategy differed between the three groups of co-ops. The AR co-ops sold 52.5 percent of their cotton to private firms, the LR co-ops sold only 37 percent to private firms while the producers credit co-ops sold only to private firms.

A tabulation of sales by staple length reveals that these co-ops traded 27 percent of the ELS cotton, 33 percent of the LS varieties, and 12 percent of the MS varieties grown in Upper Egypt (Table 6-5). Overall, these co-ops sold 27 percent of the seed cotton produced in the 2000/01 season.

It is worth noting that all sales by these co-ops are negotiated and contracted for at the national level between the officials of the national organizations and the officials of the various companies. The local co-operatives play no role in the bargaining process. Overall, these co-ops sold their seed cotton at average prices that were LE 6.80/kt. higher than the prices listed in the official price tables.

Table 6-4: Sales of Seed Cotton to Private and Public Firms by Co-op Societies, 2000-01 (seed kentars)

Co-op Society	Private Firms	Public Firms	Total	Percent
Agrarian Reform	242,779	219,526	462,305	49.4
Land Reclamation	68,106	115,668	183,774	19.6
Producers Credit	290,398	---	290,398	31.0
Total	601,283	335,194	936,477	100.0
Percent	64.2	35.8	100.0	

Sources: Three cooperatives societies.

Table 6-5: Sales of Seed Cotton by Co-op Societies, by Type of Cotton, 2000-01 Season

(seed kentars)				
Co-op Society	ELS Varieties (G-70& 88)	LS Varieties (G-85, 86, 89)	MLS Varieties (G-80 & 83)	Total
Agrarian Reform	97,850	305,218	59,237	462,305
Land Reclamation	21,773	140,818	21,183	183,774
Producers Credit	22,751	251,398	16,249	290,398
Total	142,374	697,434	96,669	936,477
Percent of Crop	26.6	33.0	11.7	27.0

Sources: Three cooperatives societies.

6.4 Co-op Share of the Crop

As stated above, these co-ops handled 27 percent of the crop in the 2000/01 season. Data on the share of the national crop handed by these co-ops in recent years is provided in Table 6-6. The co-operatives have been shifting more of their sales to the private sector during the past two years. In the 1998/99 season they sold 48 percent of their cotton to the private sector. In 1999/00 this share went to 58 percent and this season it increased to 64 percent.

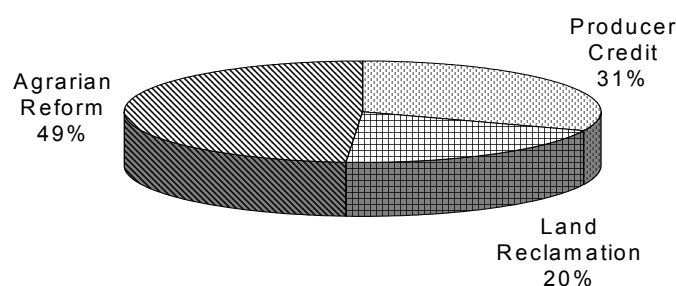
Table 6-6: Share of Seed Cotton Traded by Co-op Societies (1994-95 to 2000-01)

Year	Percentage Traded by all Co-ops
Pre-reform	100
1994-95	100
1995-96	17
1996-97	No estimate
1997-98	No estimate
1998-99	16
1999-00	27
2000-01	27

Source: 6,7,12,14,15.

If the producers' credit co-ops had been allowed to complete the contracts that they had negotiated at the start of the season, the co-ops as a group would likely have handled two-thirds of the total crop.

Figure 6-1: Market Shares of the Three Groups of Co-ops



We expect the co-ops to gain market share in the future under more liberal market policies. The co-operatives have, during this season and every season, assisted the growers in obtaining slight price premiums over the official prices. Cotton growers have no bargaining power when selling at the PBDAC rings, and private traders will certainly not bargain on behalf of the producer. Hence the co-ops represent the only organized force available to represent the grower and to bargain on his behalf.

7. TRADING OF SEED COTTON BY SMALL- AND MEDIUM-SCALE TRADERS

This chapter will examine the market share of small- and medium-scale registered traders in the optional cotton marketing system and report on MVE survey findings of a sample of registered and non-registered seed cotton buyers. Our analysis of the MVE sample traders will cover their purchases inside and outside of sales rings, their sales of seed and lint cotton to traders and spinners, marketing practices, and their reported problems and policy concerns. We will also analyze prices paid for different cotton varieties by these traders and coops, by type of producer sales point.

7.1 Breakdown of Registered Seed Cotton Traders

Law No. 210 of 1994, which legalized the private trade of cotton, required the registration of domestic cotton traders.²¹ Under Section II of this law, registration as a trader requires the deposit of LE 3,000 as a refundable security deposit and an annual membership fee of LE 500. Table 7-1 shows how many traders registered each year, how many canceled in subsequent years, and how many traders remain registered of the original registrees. A large number of private individuals canceled their registration between 1997 and 1998, presumably because they no longer planned to trade cotton after two years of very limited private sector participation, 1996/97 and 1997/98. By April 1997, a total of 183 registrations had been approved, but 21 had canceled yielding 162 registered traders. During the 1997-99 period 23 new applications were approved but 38 others canceled their registration.

Just prior to and during the 2000/01 marketing season 18 new firms or individuals requested registration and one private firm canceled its registration. This brought the current number of registered cotton traders to 150. As shown in Table 7-2, there were 104 private individuals or companies, 15 cooperatives, and 31 public companies registered as cotton traders by January 2001. Many of the private companies have never had sales rings.

During the late 1990s, the Domestic Cotton Traders' Committee, chaired by Nabil El Marsafawy, played an important role in allocating PBDAC sales rings. In 2000/01, this committee appears not to have been consulted at all by the Supervisory Committee in planning the implementation the Optional Marketing System. One important member of this committee expressed dissatisfaction with the way PBDAC rings were allocated. Some registered traders noted that the committee did not do its job in 2000/01 defending the interests of private traders, and they questioned how the annual members' fees (LE 500 per member, for total dues of LE 75,000) were used. This committee could play an important role in ensuring that private traders have fair and timely access to PBDAC rings and that the Supervisory Committee not be allowed to make arbitrary decisions without consultation.

²¹ The Holding Company for Cotton and International Trade, now the Holding Company for International Trade, handles these registrations and provided these data.

Table 7-1: Registrations and Cancellations of Seed Cotton Traders, 1994-2000

Year of Registration	Number Registered	Canceled	Still Registered
1994	58	16	42
1995	89	37	52
1996	35	19	16
1997	7	2	5
1998	8	1	7
1999	8	0	8
2000	20	0	20
Total	225	75	150

Source: Cotton and International Trade Holding Company

Table 7-2: Classification of Registered Seed Cotton Traders, by Buyer Type

Type of Firm	Mar. 1995	Jul. 1995	Nov. 1995	Apr. 1997	Jan. 1999	Oct. 1999	Mar. 2000	Jan. 2001
Public Firms:								
Ginning companies	5	5	5	5	3	3	3	3
Trade and export companies	8	11	11	11	12	12	12	12
Spinning mills	6	11	11	12	13	14	13	15
Holding Company	-	1	1	1	1	1	1	1
Total Public Firms	19	28	28	29	29	30	29	31
Cooperatives	3	6	11	14	15	15	15	15
Private:								
Trading companies	19	33	56	67	58	62	55	69
Ginning companies	-	-	-	-	2	2	2	2
Spinning companies	-	-	-	-	-	1	1	3
Individuals	33	38	52	52	34	33	29	30
Total Private Firms	52	71	108	119	94	98	87	104
Total	74	105	147	162	138	143	131	150

Source: Tabulated from data provided by the Cotton and International Trade Holding Company.

7.2 Small Registered Traders with Sales Rings

Table 7-3 shows how many sales rings each trader was initially and later actually allotted, the cotton area planted surrounding each ring, and an estimate of how much seed cotton the trader could obtain. The Table also shows actual purchases of seed cotton at the rings, the quantity of seed cotton that each ring-holder delivered to CATGO, and an estimate of how much seed cotton was bought outside the sales rings.

Table 7-3: Seed Cotton Purchases of Registered Small/Medium Traders within and outside PBDAC Sales Rings

Units	In MVE Survey?	Initial Allocation: Rings				Final Purchases: Rings		Ring Purch. as % of Est. Allocation	Total Purchases	Estimated Purchases	% Purch. Outside
		N	Area	Est. Prod.	Adj. Est.	N	Actual Purchases				
	Yes/No	#	fed.	seed kentars		#	seed kentars		seed kent.	Outside Rings	Rings
Source of Data	MVE	Supervisory Committee				PBDAC		Calc.	CATGO	Calculated	
North Upper Egypt	N	9	4,858	32,751	32,751	9	16,103	49.2%	15,296	-807	-5.3%
Moh Mahmoud El-Garhy	N	9	3,156	32,751	32,751	9	15,114	46.1%	15,084	-30	-0.2%
Motahida, Beni-Suef	Y	5	1,818	12,415	12,415	5	8,807	40.4%	23,084	14,277	61.8%
Anani for Cotton Trade	N	6	1,276	8,537	8,537	6	6,635	77.7%	5,489	-1,146	-20.9%
Al-Safa for Cotton	N	5	1,718	11,178	13,414	6	5,516	41.1%	2,621	-2,895	-110.5%
<i>Subtotal: Comps with >2 Rings</i>		34	12,826	97,632	100,504	35	52,175	44.5%	61,574	9,399	15.3%
Al-Amal for C. Trade	Y	2	319	1,809	1,809	2	2,272	125.6%	2,269	-3	-0.1%
Sticor Industry & Invmt.	N	2	322	1,826	1,826	2	2,259	123.7%	2,259	0	0.0%
Motahida, Minya al Kamh	N	2	1,412	9,363	9,363	2	5,415	57.6%	0	0	0.0%
Khayrat for Engin./Trade	Y	1	239	1,642	1,642	1	3,034	184.8%	351	-2,683	-764.4%
Marina for Cotton Trade	Y	1	254	1,745	1,745	1	2,399	137.5%	2,341	-58	-2.5%
Middle East	Y	1	268	1,822	1,822	1	1,416	77.7%	23,048	21,632	93.9%
Zydan for Cotton Trade	Y	1	346	2,377	2,377	1	4,318	181.7%	4,334	16	0.4%
Al-Ahram for C. Trade	Y	1	263	1,788	1,788	1	0	0.0%	6,997	6,997	100.0%
Farghal for Cotton	Y	1	300	2,040	2,040	1	910	44.6%	911	1	0.1%
Dawlia for Fertilizer & Chemicals	Y	1	247	1,400	1,400	1	1,835	131.0%	0	-1,835	
Abdel Baset Ahmed Hussein	Y	1	270	1,531	1,531	1	958	62.6%	1,120	162	14.5%
Younes Ragab	Y	1	294	2,020	2,020	1	1,239	61.3%	956	-283	-29.6%
Al-Shark for Trade	Y	1	268	1,822	1,822	1	367	20.1%	0	-367	
Samia Taha Kotb	Y	1	235	1,901	1,901	1	1,952	102.7%	1,952	0	0.0%
Mahmoud Farouk Ragab	Y	1	330	2,670	2,670	1	3,444	129.0%	3446	2	0.0%
Wadi El-Nil	Y	1	345	2,791	2,791	1	2,059	73.8%	2,060	1	0.0%
Al-Hamd	N	1	275	2,225	2,225	1	1,576	70.8%	1,576	0	0.0%
Cotton Mkt. Office (Hekmat)	N	1	269	2,176	2,176	1	2,217	101.9%	2,217	0	0.0%
Mohamed Abd El-Rahman	Y	1	258	1,726	1,726	1	1,080	62.6%	14,173	13,093	92.4%
Al-Farid for Cotton Trade	Y	1	279	1,867	1,867	1	1,083	58.0%	2,065	982	47.6%
Al-Hotii For C. Trade	Y	1	300	2,007	2,007	1	1,031	51.4%	8,736	7,705	88.2%
Mostafa Al-Assal	N	1	335	2,710	2,710	1	2,039	75.2%	2,038	-1	0.1%
Nile for Cotton Trade	N	1	247	1,998	1,998	1	1,782	89.2%	1,783	1	0.1%
Delta/Dawlia for Investmt.	N	1	612	4,204	0	0	0	na	104	104	100.0%
<i>Subtotal: Comps with 1-2 Rings</i>		27	8,287	57,491	53,287	26	44,685	77.7%	84,632	45,362	53.6%
Total: 26 Companies	18	61	21,113	155,123	153,790	61	96,860	62.4%	146,206	54,761	33.8%

Sources: The Supervisory Committee for the Optional Cotton Marketing, PBDAC and CATGO

Notes: 1) Estimated production in the cotton areas served by the rings equals the area in feddans covered by each ring times average national yields, by variety. For two companies, Motahida for Cotton and Al Safa, this estimated production had to be adjusted for final ring allocations (that differed from initial allocations).

2) Actual purchases at sales rings are reported by PBDAC.

3) Total purchases, reported by CATGO, include volumes purchased at PBDAC rings and outside rings. These are total deliveries to the gins. There appear to be some discrepancies, illustrating lack of concordance between official sources.

4) Estimated purchases outside rings equal deliveries to gins (CATGO figures) minus purchases at sales rings (PBDAC figures). Negative numbers are most likely due to errors in the CATGO data.

Notes (cont.): 5) One company, the Egypt Company (or Egypt Ginning Co.), is part of the Modern Nile Group. Its only sales ring and cotton purchases are reported with the private ALCOTEXA companies. It bought 3,478

sk of Giza 70 at one PBDAC ring. This company was the 19th registered trader in the MVE trader sample survey.

6) CATGO does not report any deliveries to gins in its statistics (from March 2001) for Dawlia for Fertilizer and Chemicals and for Al-Shark for Trade. Deliveries for these companies may be reported under a different company's name. Note that it is not possible to reconcile perfectly the PBDAC and CATGO figures with the final deliveries to the gins, reported by gin, also by CATGO. Minor discrepancies remain in the data.

7) Delta for Cotton/Dawlia for Investment was allocated one PBDAC ring (Giza 89), but it did not buy seed cotton at any ring. It did deliver 104 sk to the gins, however, which is not counted in the total for the registered small traders with PBDAC rings.

Across all 26 companies, ring-holders bought 96,860 seed kentars through sales rings, or 62.4% of the estimated cotton available through their total 61 PBDAC rings.²² These companies combined to deliver 146,206 seed kentars to the gins, however, which implies that they bought 54,761 sk or 37.5% of their deliveries to the gins from outside the sales rings. Six companies alone bought from 47.6% to 100% of their seed cotton outside the rings, combining for 64,686 sk of a total of 78,103 sk (including 13,417 sk bought at the PBDAC rings).²³

These companies sold their cotton as lint, after ginning. Three of them received significant pre-financing for seed cotton purchases from larger trading companies. In turn, these three firms delivered the seed cotton to the gins under larger traders' names, but they negotiated arrangements with the large traders that allowed them to capture part of the added returns from ginning, including the sale of cottonseed to oilseed processors and the higher grade of lint (relative to seed cotton) resulting from ginning. Two of the companies that bought most of their seed cotton outside the rings received no finance from larger traders and sold the lint cotton to spinners or traders on more of an arms-length basis.

One conclusion about the distribution of sales rings is that 1-2 sales rings do not provide sufficient trading volume to medium-scale traders and even to many small traders. Although the GOE, particularly the Supervisory Committee, allocated PBDAC sales rings to more private traders in 2000/01 than in 1999/00, most traders were unsatisfied with their allocations. Eighteen sample traders applied for an average of 6.0 rings, expecting to receive 4.8 and received only one.²⁴ The limited number of rings forced 5 medium-scale traders to buy most of their seed cotton outside the sales rings in order to operate on a sufficiently large scale.

7.2 MVE Sample Survey

²² Note that one company with one sales ring, the Egypt Company, is a subsidiary of the Modern Nile Group. This was the 29th small trader. Information about this company was included in the totals for the Modern Nile Group in the table on seed cotton purchases by registered traders that are ALCOTEXA members.

²³ The fact that these six companies appear to have bought more seed cotton outside the PBDAC rings than the quantities purchased by all the small- and medium-scale traders is due to problems with CATGO's data on deliveries to gins. Seed cotton bought by some companies at PBDAC sales rings is not reported as having been delivered to the gins at all for four traders and is under-reported in six cases.

²⁴ One medium-size sample trader applied for 22 sales rings, expected to get 22, and actually received 5 rings.

As of late 2000,²⁵ there were 15 registered cooperatives and 104 registered private trading companies or individuals. The latter category includes 17 ALCOTEXA members, whose larger scale of operation, export orientation, and easier access to finance differentiate them from the small- and medium-scale trader category.²⁶

In 1998/99 and 1999/2000, MVE sampled and interviewed some traders who were not active in the seed cotton market that year. In 2000/01, given limited time and resources, MVE decided to interview only active participants. These active participants were identified in telephone calls to many small- and medium-scale traders.²⁷ Despite the smaller sample, MVE was able to interview in depth a reasonable cross-section of registered traders, a significant number of non-registered traders (20) and cooperatives (4 of 15), which provided insights into the smaller scale private seed cotton trade in 2000/01. Several structured informal interviews with medium-scale traders provided supplementary information. Interviews with selected ALCOTEXA members, who often buy seed cotton (and sometimes lint cotton) from smaller traders, provided complementary information on the cotton buyer side.

The MVE survey focused on the small- and medium-scale seed cotton traders who participated in two of the three major marketing channels during 2000/01:

- X registered traders who received PBDAC sales rings (19); and,
- X registered traders (4), cotton producer marketing cooperatives (4), and non-registered buyers (20) who bought outside the optional marketing system. Note that 7 registered traders with rings also bought outside their PBDAC sales rings.

In total, MVE interviewed 47 participants in the seed cotton trade, 27 of whom were registered traders. These comprised 31% of the total private registered trading companies and individuals (n=104) less ALCOTEXA members. MVE contacted many of the smaller registered traders in late October 2000 and learned that many were not buying seed cotton this marketing season.

MVE obtained information about PBDAC's initial ring allocation in September 2000 that was helpful in creating a sample frame. Registered traders with sales rings formed the first sample stratum. The population of such firms was 27 traders and firms in 2000/01, broken down as follows:

- X 5 companies with 5-9 sales rings each
- X 22 companies with 1-2 sales rings each (only two of these companies had 2 rings)

MVE chose to interview 19 of these trading enterprises, and one firm, the Egypt Company, was dropped from consideration as it is a subsidiary of the Modern Nile group.

The second stratum was registered traders who did not obtain PBDAC sales rings, but who bought seed cotton in 2000/01 nonetheless. MVE used the list of registered cotton traders to

²⁵ These figures come from information provided by the Domestic Cotton Marketing Trade Committee, headed by Nabil Marsafawy, as of January 2001. They include traders who registered from 1994 through 2000.

²⁶ Several of the ALCOTEXA members are actually medium-size companies. Their interest in exporting lint makes them a different type and scale of operation than non-ALCOTEXA members.

²⁷ MVE was unable to contact all of the listed small- and medium-scale traders, as telephone numbers had changed or traders were simply unreachable. Of the 87 potential smaller-scale traders registered traders, MVE selected 19 for the survey, informally interviewed six others, and contacted 43 others by telephone, of whom 20 were not active. Hence, MVE was unable to reach 19 traders.

identify the possible candidates for this stratum and telephoned over 40 traders to see if they were involved. Many of these traders were difficult to reach, but MVE succeeded in identifying four who were buying seed cotton outside rings. MVE feels that this category of trader was under-represented in its survey and subsequently learned of and interviewed several regular traders without rings who were active in 2000/01. Four of 15 cooperatives were also chosen. These cooperatives bought at their own collection centers and not at PBDAC sales rings.

A third stratum was non-registered traders. MVE interviewed 43 non-registered traders in 1998/99 and 50 in 1999/00, with 7 interviewed both years. A couple non-registered traders in earlier years had become registered traders by the beginning of the 2000/01 marketing season. While the population of non-registered traders is unknown, it is likely to be as large or larger than the population of registered traders (of 150 companies, as of January 2001). Any subsample of these non-registered traders is a convenience sample, based on ease of contacting the traders or randomly running into them. MVE conducted interviews with 20 actively participating non-registered traders in 2000/01.

7.3 Reasons for Non-Participation

Through telephone interviews, MVE learned the reasons why 20 registered traders decided not to participate in seed cotton marketing in 2000/01. These reasons, mostly policy-related, are reported in Table 7-4.

Note that 19 of the 31 total reasons mentioned had policy content. The respondents characterized the policy environment surrounding cotton seed marketing as unclear and unstable (40% of the traders), the system as not free (10%), and the distribution of sales rings in August 2000 as unfair (10%). Nine of 31 reasons concerned inadequate finance for buying seed cotton, as 30% said they lacked sufficient funds (of their own) to buy seed cotton and 15% were unable to obtain bank loans. MVE did not interview any of these 20 traders, beyond the brief telephone interview.

Table 7-4: Reasons Why Some Registered Traders did not Participate in the Seed Cotton Trade in 2000/01

Category	Specific Reasons Given	No.	% Total
Policy 1	Policy uncertainty/policy environment is unclear and unstable	8	40%
Policy 2	Supervisory Committee's instructions hard to follow and contradict GOE decree	5	25%
Policy 3	Cotton marketing system not free	2	10%
Policy 4	Distribution of rings unfair	2	10%
Policy 5	Since price freeze of 1995, have not participated in cotton trade	2	10%
Finance 1	Lacked own funds to buy cotton	6	30%
Finance 2	Lacked access to bank loans to buy cotton	3	15%
Other 1	Owner died	1	5%
Other 2	Crop small this year	1	5%
Other 3	Company concentrating on other activities	1	5%
Total non-participating traders contacted by telephone		20	100%

Note: This information was obtained from telephone interviews done by MVE in late October 2000.

7.4 Registered Traders without Sales Rings who Delivered to the Gins

Note that 10 registered traders, who did not buy at PBDAC sales rings, delivered 53,514 kentars of seed cotton to the gins (according to CATGO data), or 1.6% of the seed cotton crop. Their market share was two-thirds as large as the share represented by purchases at PBDAC rings of sample registered traders with rings.

These traders bought the following quantities, by variety:

Table 7-5: Seed Cotton Purchases, by Variety, by Registered Traders without PBDAC Sales Rings

Variety	No. Buyers	Purchases (sk)	Average Amount Purchased (sk)	Variety as % Total
Giza 70	2	9,796	3,898	18.3
Giza 86	2	3,948	1,974	7.4
Giza 85	1	1,425	1,425	2.7
Giza 89	5	13,903	2,781	26.0
Giza 83	4	24,442	6,111	45.7
Total	10	53,514	5,351	100.0

Source: CATGO.

Purchases of Gizas 83 and 89 predominated. These traders without rings were not able to buy much Giza 85 or 86. Two of the traders were able to buy Giza 70, and two traders bought Giza 86; both varieties were in high demand in the export market.

These companies were all officially registered traders; one was a cooperative. None were sampled for interviews in the formal survey, though one was interviewed informally by MVE. This trader, who bought Giza 70 and 89 in Beheira, reported buying seed cotton during the marketing season but wished to have nothing to do with the optional marketing system. He characterized the geographic dispersion of rings, wherein small traders were sometimes assigned rings outside their areas and natural buying zones, as ridiculous. He was highly critical of the Supervisory Committee's implementation decisions, particularly the ring allocation, as were many other registered traders, including participants in the Optional System and non-participants.

7.5 Characteristics of Different Trader Types

As shown in Table 7-6, most of the seed cotton buyers (three-quarters) interviewed bought for their own account, including nearly all (20 of 23) of the registered traders and 75% of the non-registered traders. 19% of the sample (9 buyers) worked on commission for other trading companies, including two coops, five non-registered traders and two registered traders.

Table 7-6: Type of Participation in Seed Cotton Marketing in 2000/01

Business Arrangement	Reg. w/Rings	Coops	Reg. w/o Rings	Non-Reg.	Total
Bought on own account	17	0	3	15	35
Work on commissions	1	2	1	5	9
Partner in a company	1	0	0	0	1
Contract with buying co.	0	2	0	0	2
Employee of a company	0	0	0	0	0
Total	19	4	4	20	47

Source: MVE survey of cotton traders, November 2000.

As shown in Table 7-7, nineteen traders were registered and obtained PBDAC sales rings. In addition to buying at rings, these traders bought both directly from farmers (6 cases) and from other traders (4). This suggests that over half of the registered traders with rings (10 of 19) were unable to procure enough seed cotton to meet their needs through the rings. The four cooperatives in the sample all bought only at their own private rings, which are cooperative collection centers. The four registered traders who did not apply for PBDAC rings bought directly from producers. Finally, all 20 non-registered traders bought directly from farmers, while 3 also bought from other traders, who were small-scale, village-based assemblers.

Table 7-7: Method of Buying Cotton Reported by Private Traders

Type of Buying Method	Reg. with rings	Coops	Reg. without Rings	Non-Reg.	Total
Subsample Size	19	4	4	20	47
Varieties Traded:	G 70 = 1	G 70 = 1	G 70 = 1	G 70 = 5	G 70 = 8
	G 85 = 3	G 85 = 2		G 85 = 5	G 85 = 10
	G 89 = 4	G 89 = 1	G 89 = 1	G 89 = 2	G 89 = 8
	G 86 = 4	G 86 = 1		G 86 = 2	G 86 = 7
	G 80 = 4			G 80 = 6	G 80 = 10
	G 83 = 3		G 83 = 2		G 83 = 5
At PBDAC sales rings	19	0	0	0	19
At private rings	0	4	0	0	4
Directly from farmers	6	0	4	20	30
Other traders	4	0	0	3	7
Total	29	4	4	23	60

Source: MVE survey of cotton traders, November 2000.

The varieties traded, also shown in Table 7-7, included all the cotton varieties grown in summer 2000, except for Giza 88, which was collected entirely by GOE entities (HSU and the public trading companies). Since Giza 80 and 83 have similar attributes, as MLS varieties, and spinning characteristics, they can be combined (n=9). Hence, the number of traders per variety varies from 7 for Giza 86 to 10 for Giza 85. The fact that the sampled non-registered traders bought all varieties except Giza 83 (and 88) is evidence that these traders are willing to buy seed cotton of all types in all parts of Egypt. The activity of non-registered traders is not limited to the varieties most sought after in the international marketplace (Gizas 70 and 86).

7.5.1 Registered Traders with Rings

This subsample of the MVE survey had a smaller trader bias. Note that 17 of the 19 registered traders with sales rings had only 1 ring and one trader had 2 rings. One medium-size trader had five rings.²⁸ As a group, the 19 traders reported buying a total of 81,629 seed kentars, or 4,296 sk per trader. Note, however, that five traders reported buying 66,842 sk, or 81.9% of the total. This means that the remaining 14 traders bought an average of 1,056 sk each, or only 986 sk per ring, well below the anticipated average quantity of 1,908 sk.²⁹

As the MVE survey was conducted in the second half of November 2000, some traders had not bought all their seed cotton at that point. Cross-checking MVE survey findings with data on purchases at PBDAC sales rings (provided by PBDAC) and deliveries to gins (provided by CATGO) reveals slightly higher total purchases of 94,764 sk, of which 41,682 sk were bought at PBDAC rings. Hence, these 19 registered traders as a group bought 56.0% of their seed cotton outside the rings. According to CATGO data, six traders in the MVE sub-sample of registered traders delivered 78,103 sk to the gins, of which only 13,417 sk were bought at the rings, while the remaining 64,686 sk were obtained outside the sales rings.

7.5.2 Registered Traders without Sales Rings

The MVE sample included four private traders and four cooperatives of the Cotton Producers' Marketing Cooperative who did not operate PBDAC sales rings. The four private traders operated on a moderate scale, buying an average of 4,109 seed kentars each, while the coops bought 139,970 seed kentars as a group.³⁰ These four coops were located in important cotton-producing governorates in the Delta: Dakhalia, Kafr El Sheikh, Beheira and Sharkia. The four private traders bought directly from farmers outside the sales rings, while the coops operated collection centers in direct competition with sales rings, which decreased the quantities of seed cotton collected at the PBDAC rings.

The coops sold all of their seed cotton as seed cotton to private traders, who then delivered it to the gins (under their names) and had the cotton ginned. The coops reported capturing price premiums for their producers of 5-10 LE/sk. In this sense, they represented their producers well. In the future, if access to bank financing were improved, the coops might consider delivering the seed cotton to the gins so as to earn higher overall returns from ginning and sale of both the seed (to oilseed pressing companies) and lint (to either traders or directly to spinners).

7.5.3 Non-Registered Traders

MVE interviewed 20 non-registered traders, selected mainly as a convenience sample. These traders bought an average of 770 seed kentars per trader outside the sales rings. They sold

²⁸ MVE conducted structured informal interviews with two of the remaining medium-scale traders who had five or more sales rings: Mahmoud El Garhy (9 rings) and El Annanee for Cotton Trade (6 rings). North Upper Egypt (9 rings) and Al Safa for Cotton (5 rings) were not covered, though MVE obtained some information indirectly on their activities.

²⁹ Of these remaining 14 registered traders with rings, two bought some quantities outside the sales rings.

³⁰ These four cooperatives were among the 14 cooperatives that bought a combined total of 290,398 seed kentars this marketing season for an average of 20,743 sk each. There is also an umbrella cooperative at the national level that did not buy seed cotton.

nearly all (96%) of their cotton as seed cotton to larger traders. Four non-registered traders reported selling small quantities of lint cotton (a total of 738 lint kentars) after ginning.

These small traders typically buy only one variety and operate in relatively circumscribed geographic areas, assembling seed cotton directly from farmers in villages where they have extended family or other contacts. They play an important crop assembly function for larger traders, who wish to keep their transactions costs low. There is little doubt that their role and market shares could be expanded, substituting in large part for PBDAC sales rings. Most of the Egyptian seed cotton crop could be collected by small traders, who would probably provide this service at lower cost than the PBDAC sales rings.

7.6 Expanding the Role of Non-Registered Traders

In the course of surveys of seed cotton buyers during three successive years, MVE has identified 93 non-registered traders. Average purchases of the 43 non-registered traders interviewed in 1998/99 were higher, at 953 seed kentars, than during the 2000/01 marketing season. Based on partial geographic coverage of the MVE surveys, the number of non-registered traders is probably at least double the 93 enumerated by MVE. Some estimates of the seed cotton that non-registered traders could assemble are shown in Table 7-8. Note that these numbers are hypothetical but plausible scenarios of the level of non-registered trader participation.

Table 7-8: Short-Run Scenarios regarding Potential Participation of Non-Registered Traders in Seed Cotton Assembly

Assumption about Level of Participat.	No. of Traders	Average Quantity Assembled per Trader (in seed kentars)	Total Volume of Seed Cotton Assembled (seed kentars)
Minimum	200	1,000	200,000
Feasible	400	1,000	400,000
Potential	600	1,500	900,000

Source: MVE cotton trader surveys, 1998-2000, and MVE assumptions.

The participation of non-registered traders in cotton marketing is in large part a function of the policy environment and how the optional marketing system is implemented in any given year. During a year where the MALR declares support prices that are below open-market prices and farmer cotton sales outside PBDAC rings are not discouraged, we would expect non-registered traders to be heavily involved in cotton buying, and purchases of close to one million seed kentars are not far-fetched.³¹ In a year of high support prices, farmers will prefer to sell seed cotton for higher than open-market prices at PBDAC sales rings, and this will minimize first purchases by non-registered traders. Note, however, that some farmers, desperate for cash, will sell to non-registered traders at prices below official prices offered at sales rings in order to avoid waiting for payment (the final 20% of the seed cotton price is

³¹ Note that there are estimated to be over 8,000 paddy buyers in Egypt (see Holtzman et al. *Rice Subsector Baseline Study*, March 1999), and many village traders assemble several agricultural commodities.

delayed two to four weeks typically) and to avoid PBDAC deductions for crop production loans.³²

The GOE reluctance to open up seed cotton buying and allow for more participation of non-registered traders dates from some negative experiences from the 1994/95 and 1995/96 cotton marketing seasons, when many small traders participated in seed cotton buying. There were many allegations of varietal mixing, weighing and grading irregularities, and other abuses. Undoubtedly, some of these allegations were true. As the private sector gains more experience in seed cotton trading, however, and as more experienced traders (both registered and non-registered) compete in a way that promotes efficiency, better handling and quality, there will be fewer instances of such abuses and irregularities. Competitive markets discipline participants; those who cheat farmers or buyers, or whose agricultural products are poorly handled and of low quality will find themselves out of business quickly. Traders with an interest in staying in the business for more than one season will avoid dealing unfairly with sellers and buyers in ways that could damage their reputations. The way to counter unfair trading practices of some private sector traders is to encourage widespread participation (avoid discouraging entry) and ensure as open and competitive a marketing system as possible. When farmers have multiple buyers, offers and sales points for their seed cotton, they will sell their cotton for the best prices available and not fall prey to localized monopsonists (representing only one sales option in a particular area).

7.7 Trader Purchases of Seed Cotton and Prices Paid

The MVE survey was conducted in the second half of November 2000, largely before Ramadan began. Most (but not all) seed cotton had been sold by producers and bought by traders by late November.³³ MVE survey results are therefore indicative, not final or definitive.

7.7.1 Purchases of Seed Cotton by Buying Method

As shown in Table 7-9, purchases by registered traders with rings were the most varied. They bought 48.7% of their seed cotton at PBDAC sales rings, 17.9% at private rings, and 33.4% from other traders. The average quantity purchased equaled 4,292 sk, though traders operated on a wide variety of scales and purchased a wide range of volumes. In the sub-sample of 19 traders, the five largest traders bought 56,703 sk, or 69.5% of all the seed cotton purchased by this trader category.

³² In *Seed Cotton Marketing in Egypt, 1999/2000*, Krenz and Mostafa state that some non-registered traders are producers who loan money to neighbors and receive (often unwillingly) seed cotton as payment.

³³ As discussed later, while purchases had been essentially completed, sales had not been, particularly in those cases where traders ginned their cotton and planned to sell it as lint.

**Table 7-9: Quantities of Seed Cotton Purchased by Sample Private Traders,
by Trader Type and Buying Method**

(in seed kentars)

Type of Buying Method	Reg. w/rings	Coops	Reg. w/o Rings	Non-Reg.	Total
PBDAC Sales Rings	39,706	0	0	0	46,446
At Private Rings	0	139,811	0	0	139,715
Direct from Farmers	14,627	0	16,602	14,900	46,029
Other Traders	27,206	0	0	370	27,576
Total	81,539	139,811	16,602	15,270	253,222

Source: MVE survey of cotton traders, November 2000

Two registered traders without rings bought only 700 sk each, while one bought 3,200 sk and the largest bought 12,000 sk. As noted above, coops bought entirely at their own collection centers, and registered traders without rings bought entirely from producers. Coop purchases ranged from 3,506 sk (Dakhalia Crop Association) to 77,867 sk (Kafr El Sheikh Crop Marketing Association).

Non-registered traders bought almost all their seed cotton (97.6%) directly from farmers and 2.4% from other traders. They bought an average of 764 sk per trader, with the distribution of sales volume shown in Table 7-10. Six traders bought 300 sk or less, 9 bought from 320 to 1000 sk per trader, and 5 bought over 1000 and less than 2000 sk each. 19 registered traders with 24 sales rings bought an average of 4,300 sk/trader. They bought 52.6% of their seed cotton (46,446 sk) at PBDAC rings, 16.6% directly from farmers, and 30.8% from other traders.

Table 7-10: Distribution of Traders by Volume of Seed Cotton Purchased, by Trader Type

(in numbers of traders)

Volume Level	Reg. w/rings	Coops	Reg. w/o Rings	Non-Reg.
#300 sk	0	0	0	6
301-500 sk	1	0	0	4
501-1000 sk	2	0	2	5
1001-1500 sk	5	0	0	2
1501-2000 sk	3	0	0	3
2001-4000 sk	4	1	1	
4001-10,000 sk	3	0	0	
10,001-20,000 sk	2	0	1	
> 20,000 sk		3		

Source: MVE survey of cotton traders, November 2000

7.7.2 Prices Paid for Seed Cotton

Sample registered traders paid “tables” or official prices at PBDAC sales rings. Outside these rings, they generally paid higher prices, although prices fluctuated considerably. Cooperatives paid marginally higher prices (LE 4-10/sk), while some non-registered traders

paid lower prices to producers, who accepted lower prices in order to receive quick payment in cash.

Twenty-six traders bought 61.4% of the seed cotton they anticipated buying, based on MVE's estimation of seed cotton quantities that were available for delivery to their PBDAC sales rings.³⁴ The rest of the seed cotton intended for the rings (run by these small traders) was bought outside the PBDAC rings by cooperatives (at their collection centers), by small traders without rings, and (ironically) by ring-holders. In areas with a lot of competition, buyers paid producers premia for their seed cotton, varying from LE 4-5/sk to as much as LE 25-30/sk. The premia tended to be higher for varieties for which there was strong export demand. Buyers figured they could pay premium prices and still make money selling seed cotton or lint to large private trading companies, who were keen to expand their market share in a year where private export commitments exceeded public trading company commitments for the first time since nationalization. The fact that seed cotton prices were determined using an artificially low exchange rate (of \$1=3.47 LE) allowed private exporters to earn additional revenue from export sales (where dollars could be converted back at \$1=3.8 to 4.0). Hence, these exporters could offer smaller seed cotton assemblers premium prices and still turn a profit on export sales.

MVE tried to collect detailed cotton price data for particular varieties and grades, and with ginning out-turn ratios specified. Unfortunately, the data are incomplete in many cases, idiosyncratic in others, and generally very difficult to interpret. Rather than present confusing and ambiguous findings, which do not always corroborate what MVE learned in numerous informal interviews with larger traders, spinners and ginnerers, we shall leave this analysis out of the report. MVE does offer more observations about prices paid and received by traders in the next section.

7.8 Trader Sales of Seed and Lint Cotton

Different trader types sold their cotton to different types of buyers in different forms (see Tables 7-10, 7-11 and 7-12). Registered traders with sales rings, as a group, sold most of their cotton as lint, either to larger traders, mainly private trading companies, or to spinners. By ginning seed cotton, they were able to capture higher returns from selling the lint (whose grade was higher than that for the same cotton as seed cotton) and cottonseed to oilseed processors.

Over three-quarters (76.7%) of the cotton sales by all sample traders went to large private trading companies and other private traders. Across the entire sample, 8.6% of the seed cotton was sold to domestic spinners, and 6.0% was sold to public traders or ginnerers. The remainder was sold as seed cotton to coops and PBDAC sales rings.

³⁴ This calculation takes the area of cotton cultivated in the buying zone served by each ring, multiplies this by the national average yield for the variety produced there, and arrives at an approximate estimate of cotton production in the zone around each ring (see Table 7-3).

Table 7-11: Numbers of Sample Traders, by Type, Selling Cotton to Different Buyer Types

(no. of traders)

Seller Type	Reg. w/rings	Coops	Reg. w/o Rings	Non-Reg.	Total
Domestic Spinners	6	0	1	0	6
Other traders	0	0	3	8	11
Private trading company	8	5	0	9	22
Public trading company	4	0	0	0	4
Public gins	1	0	0	0	1
PBDAC Sales rings	0	0	0	1	1
Coops	0	0	0	5	5
Total	18	5	4	23	50

Source: MVE survey of cotton traders, November 2000.

Table 7-12: Numbers of Sample Traders Selling to Different Buyer Types, by Degree of Cotton Processing

(no. of traders)

Seller Type	SC or LC	Reg. With Rings	Coops	Reg. Without Rings	Non-Reg.	Total
Domestic Spinners	SC	0	0	0	0	0
	LC	6	0	1	0	7
Other Traders	SC	0	0	0	3	3
	LC	0	0	0	4	4
Private Trading Comp.	SC	2	5	2	11	20
	LC	8	0	1	0	9
Public Trading Comp.	LC	4	0	0	0	4
Public Ginning Comp.	SC	1	0	0	0	1
PBDAC Sales Rings	SC	0	0	0	1	1
Cooperatives	SC	0	0	0	5	5
Total Sales	SC/LC	21	5	4	24	54
	SC	3	5	2	20	30
	LC	18	0	2	4	24

Source: MVE survey of cotton traders, November 2000.

Note: SC is seed cotton, LC is lint Cotton.

Table 7-13: Sample Trader Sales of Seed and Lint Cotton to Different Buyer Types
(seed & lint kentars)

Seller Type	How Cotton Sold	Reg. With Rings	Coops	Reg. Without Rings	Non-Reg.	Total
Buyer Type						
Domestic Spinners	Lint Cotton	24,458	0	840	0	25,298
Other Traders	Seed Cotton	0	0	0	1,500	1,500
	Lint Cotton	0	0	0	738	738
Private Trading Comp.	Seed Cotton	11,000	139,480	3,900	10,300	164,618
	Lint Cotton	18,340	0	13,800	0	32,140
Public Trading Comp.	Lint Cotton	16,240	0	0	0	16,240
Public Ginning Comp.	Seed Cotton	951	0	0	0	951
PBDAC	Seed Cotton	0	0	0	1,800	1,800
Cooperatives	Seed Cotton	0	0	0	1,005	1,005
All Buyers	Total (SC equivalent)	63,061	139,480	16,295	15,211	234,047
	% Total	77.3%	99.8%	98.2%	99.6%	92.4%
	Seed Cotton	11,951	139,480	3,900	14,605	169,936
	% Total	14.7%	99.8%	23.5%	95.6%	67.1%
	Lint Cotton	59,038	0	14,640	738	74,416
	% Total	62.7%	0%	74.7%	4.0%	25.3%
	% Unsold	22.7%	0.2%	1.8%	0.4%	7.6%

Source: MVE survey of cotton traders, November 2000

7.8.1 Sales of Registered Traders with Rings

Registered traders with rings had the most varied pattern of sales. As a group, they represented 79.3% of the cotton lint sales across all types of seed cotton buyers. Ten registered traders sold cotton (59% as lint; 41% as seed cotton) to private sector trading companies. Six also sold 24,458 lint kentars to spinning companies, equivalent to 33.6% of the seed cotton purchases of this trader category. One sold 951 sk of seed cotton to a public ginning company, and four sold 16,240 kentars of lint cotton to public trading companies. Total sales to public companies represented 23.8% of their seed cotton purchased. As of the time of the survey, fully 22.7% of their purchased cotton had not yet been sold; most of this cotton was Giza 80 remaining in the stores of the largest cotton buyer in the MVE sample.

Only three of 19 registered traders sold all their cotton as seed cotton, with mark-ups of LE 5/sk in two cases (Giza 85 and 89) and LE 30/sk in one case (Giza 86, a sought-after export variety). In buying from smaller traders, in 2000/01, large cotton trading companies (exporters) reported, in informal interviews, that they paid premia above official prices ranging from LE 10-30/sk for Giza 86 and Giza 70. Sixteen of 19 registered traders sold their cotton as lint (59,038 lk total). Fourteen of these 16 traders sold all their cotton as lint. Two of the largest volume traders had not yet sold all their cotton at the time of the survey, though all their sales to that point were as lint.

At the time of the survey (late November/early December 2000), the 19 registered traders with rings had sold only 14.7% of their seed cotton (11,951 sk) as seed cotton and 62.7% (59,038 lk, equivalent to 51,110 sk) as lint. The remainder, an estimated 18,478 sk (22.7%), was unsold. Among traders surveyed by MVE, the main unsold variety was Giza 80. Two registered traders with rings held the equivalent of 18,662 seed kentars of Giza 80, 97.3% of the unsold stocks of all sample traders. These two traders had actually purchased most of their seed cotton (27,316 of 37,403 sk, or 73%) outside the PBDAC rings. At the national level, note that 45% of the Giza 80 produced in summer 2000 (plus modest carryover from 1999/2000) remained in stock as of the end of April 2001; it had not been shipped for export or delivered to domestic spinners. Hence, our micro-level finding regarding slow-moving Giza 80 is consistent with the limited Giza 80 utilization picture at the macro level.

Five of the registered traders with sales rings bought most of their seed cotton outside the PBDAC rings that each was allocated (four were allocated one each; one received 5 rings). Not content to operate on such a small scale and possessing the financial resources to buy a larger volume of seed cotton than other small- and medium-scale traders, these five registered traders ginned all of their seed cotton and sold the lint to private spinners and large private trading companies.

Recent discussions with several small- to medium-scale registered traders suggest that some private traders still held (as of late April) unsold quantities of Gizas 83, 85, 86 and 89. Export quotas were imposed on Giza 85, 86 and 89 early in the marketing season, which restricted export commitments. Several traders also claimed that they sold these LS varieties to domestic spinners later in the marketing season at a loss, rather than continuing to hold LS lint that could no longer be exported. There are no available figures on unsold stocks of various LS varieties held by private traders.

7.8.2 Sales by Cooperatives

Cooperatives sold all their cotton as seed cotton without ginning it. In 2000/01, the coops viewed their role as one of simply collecting producers' seed cotton, paying modest premiums, and supplying this seed cotton to large private trading companies who pre-financed 50% of their purchases. Therefore, they acted as buying or collection agents for larger private trading companies. Perhaps their choice to sell only seed cotton is largely due to their financial situation. To the extent that they depend heavily on trading companies for pre-financing, it is unlikely that they will gin the seed cotton they buy (on other traders' credit and for other traders' account). If the coops were able to obtain financing from other sources, particularly banks, they might be able to gin the seed cotton they collect and realize higher net returns from their trading operations.

The four sample coops bought seed cotton at modest premiums from farmers and earned mark-ups of LE 4 for 77,867 sk of Giza 86, LE 15 for 36,438 sk of Giza 85, LE 4 for 22,000 sk of Giza 70, and LE 20 for 3,010 sk of Giza 89. Hence, mark-ups varied significantly. It appears as if private exporters, such as Modern Nile and Nassco, who wanted to buy up Gizas 85 and 89 as quickly as possible to obtain as large shares of the limited export quotas for those varieties as possible, paid premiums to coops who collected those varieties. Surprisingly, coop mark-ups for Gizas 70 and 86 were low, perhaps reflecting the perception that export quotas for these varieties would not be fulfilled as quickly as for Gizas 85 and 89.

7.8.3 Sales by Registered Traders without Rings

Registered traders without rings also sold most of their seed cotton as lint (74.7%) and only 23.5% as seed cotton. This again indicates the higher profitability of selling lint cotton, as the grade of the cotton increases with ginning and the trader obtains additional revenue from sales of non-planting seed to oilseed processors. One of the four registered traders without rings had a modest quantity of unsold Giza 70 (305 sk, equal to 2.5% of his purchases) at the time of the interview, which was undoubtedly sold in the following month or two. Two of these traders sold all their cotton, Giza 83, as seed and obtained a modest mark-up of LE 10/sk.

Of the four registered traders without rings, one sold 840 lk to a spinner, two sold 3,900 sk to two private trading companies, and one sold 13,800 lk to a leading exporter.

7.8.4 Sales by Non-Registered Traders

Non-registered traders (17 of 20) sold cotton to private trading companies or to other private traders. Eleven traders sold 10,300 seed kentars to private trading companies, while three sold 1,500 sk to other private traders. Four also sold modest quantities of lint (738 lk in total) to other private traders. Five sold 1,005 kentars of seed cotton to cooperatives, and one reported selling 1,800 seed kentars at various PBDAC sales rings.

Nearly all non-registered traders sold their cotton as seed cotton, rather than ginning it. This is likely due to their dependence on their own (or their families') funds, and the fact that they wish to sell their seed cotton quickly in order to recoup their working capital.³⁵ Non-registered traders sold 2/3rds of their cotton directly to large private trading companies. They sold the rest to cooperatives, PBDAC rings, and other smaller traders.

Among the 20 non-registered traders, only 4 sold their cotton as lint. Three of these four traders sold less than half of their cotton as lint. Therefore, 3 of 20 non-registered traders sold most of their cotton as seed cotton, and 16 sold all their cotton as seed cotton. Mark-ups ranged considerably. Two of the three non-registered traders who sold most of their cotton as seed but some as lint reported realizing negative returns when they sold seed cotton; this probably induced them to gin the remainder of their cotton to sell it as lint with a positive return. The mark-ups for the 16 non-registered traders who sold only seed cotton varied from zero to LE 45/sk, broken down as follows:

- 6 buyers of Giza 80 all sold their seed cotton for a modest mark-up of LE 5/sk. Five of six bought at least 1,000 sk each.
- 3 buyers of Giza 85, who purchased small quantities, sold their seed cotton at mark-ups of LE 2, 18 and 35/sk. Note also that the 2 traders who realized negative returns on their seed cotton sales (noted above) also traded Giza 85. (The registered trader with a Giza 85 sales ring reported a gross return of only LE 5/sk on his sales of 1,200 sk, while the Sharkia Crop Marketing Cooperative obtained a mark-up of LE 15/sk on sales of 36,107 sk).
- 1 small buyer of Giza 86 sold his seed cotton for a mark-up of LE 17/sk. Note that the coop that bought 77,867 sk reported a gross return of only LE 4/sk, while one large-

³⁵ Most small traders buy and sell other agricultural commodities. They need to rotate their capital quickly to realize modest returns from a variety of trading activities.

volume registered trader, who had a sales ring but bought mainly (82%) outside the ring, reported gross returns of LE 30/sk on sales of 1,800 sk of Giza 86 and of LE 17/sk on sales of 8,000 sk. While both the cooperative and the registered trader paid the same price for their Giza 86 (LE 430/sk), the private trader was able to negotiate a much higher sales price (LE 460/sk vs. LE 434/sk).

- 2 buyers of Giza 89 sold their seed cotton for mark-ups of LE 20/sk. These were two of the larger-volume buyers among the sample non-registered traders, who bought 1800 sk and 1200 sk. The Dakhalia Crop Cooperative also reported a mark-up of LE 20/sk on sales of 3,010 sk.
- 5 buyers of Giza 70 sold their seed cotton at mark-ups of LE 0, 14, 16, 20 and 45/sk. The smallest volume buyer (300 sk) had the lowest return, while the largest volume buyer (800 sk) had the highest return. In contrast, the Beheira Crop Marketing Cooperative reported a gross return of only LE 4/sk on its sales of 22,000 sk of Giza 70. The sales prices of the 5 non-registered traders and the cooperative all fell in the same narrow range (LE 454-470/sk).

7.8.5 Some Observations on Sales

What emerges from this analysis is not very clear. One conclusion is that cooperatives paid higher prices than private traders for comparable grades of seed cotton for Gizas 70 and 85. The Kafr El Sheikh Cooperative that bought 77,867 sk of Giza 86 paid exactly the same price for the same grade as traders buying at two PBDAC rings. Nevertheless, many farmers do appear to get a good deal from cooperatives. The two registered traders with rings (noted above) also paid higher prices to buy Giza 86 outside the rings (LE 13 and LE 40, on average) than they paid for cotton delivered to the rings.

Some non-registered traders paid less for their seed cotton than the official prices at the rings and the prices paid by coops. This allowed them to earn a modest to significant margin on seed cotton sales. The fact that registered traders with rings were obliged to pay the official prices at the rings led most of them to gin their cotton to earn higher returns from lint sales and sales of cottonseed to processors. At the same time, six of 19 registered traders with rings bought 59% to 93% of their seed cotton outside the sales rings, paying higher prices than they paid in the rings for comparable varieties and grades, in order to obtain adequate volume to meet their requirements to larger trading companies.

Note also that while all registered traders with rings knew the average grade of the seed cotton they bought at the rings, only half of the non-registered traders and registered traders with rings knew the grade when they bought seed cotton outside the ring. This uncertainty about grade may have led buyers outside sales rings to make lower, more conservative price offers, although competitive pressures may have largely offset this natural risk-averse tendency during the short crop year of 2000/01.

Large trading companies reported that they paid smaller traders (both registered and non-registered traders) price premiums for Giza 86 and 70. Giza 86 was once again the leading export variety in 2000/01, with commitments of over 28,000 mt. Five private trading companies have obtained commitments for 17,779 mt of Giza 86, or 63% of total commitments. Giza 70 is the number two export variety at over 22,000 mt, with two large private exporters obtaining commitments for 6,404 mt and the public trading companies capturing most of the other commitments. Public entities, including trading and ginning

companies and the HSU, were allocated most of the Giza 70 rings. The large private trading companies probably paid higher prices (and mark-ups) for Gizas 86 and 70 when they bought from private traders, though prices paid to cooperatives for these varieties were nearly as high as prices paid to private traders.

In the case of Giza 85, private traders paid prices in the LE 380s per sk while the Sharkia Cooperative paid LE 420/sk. The fact that the cooperative commanded a premium of LE 15/sk on its sales of Giza 85 to large traders (at LE 435/sk), while small non-registered traders sold most of their Giza 85 for LE 400 or less per sk is evidence of the market power of the larger coop buyer.

7.8.6 Sales by Variety

The pattern of sample cotton trader sales of seed cotton by variety (and buyer type) is shown in Table 7-14. All of the seed cotton sales were to private buyers, except for 951 sk sold to a public ginner, only 0.6% of the total 169,936 sk sold. All of the lint of the varieties Giza 70, Giza 86 and Giza 85 was sold to private sector buyers, mainly trading companies. Both Giza 70 and 86 were reported to be in heavy demand by exporters, though stocks for both varieties remained surprisingly high at the end of April 2001. Gizas 85 and 89 were subject to export quotas imposed early in the season; export contracts, presented by private exporters to ALCOTEXA, were rejected by ALCOTEXA after the quotas were filled by late October 2000.³⁶

Lint cotton sales by variety and by buyer type are shown in Table 7-15. Lint sold by registered traders without rings and by non-registered traders was sold entirely to private buyers. Other than 13,800 lk of Giza 80, sold by one registered trader without rings, the quantities of lint sold were modest. Sales of lint by registered traders with rings followed a different pattern. They sold all their Giza 70, 80, 86 and 89 to private buyers, but none of their Giza 85, and 74% of their Giza 83 to private buyers. Fifty-one percent of all the cotton sold as lint by registered traders with rings was sold as Giza 80, all to trading companies. Across all varieties, the registered traders with rings made 89.9% of their lint sales to private buyers.

³⁶ Public trading companies alleged that many of the LS export commitments of private exporters, which were registered fast and furiously early in the marketing season, were merely “positions” established to lock in market share. Based on estimates of stocks available as of late April 2001, stocks of Giza 85 (22.4% of total supply, including 1999/2000 carryover) and Giza 89 (26.6% of total supply) were lowest among all varieties. Stocks for Giza 86 were 56.8% of total supply, while Giza 70 and 83 stocks were 44.7% and 44.8% respectively. Note that the Giza 70 stocks were largely carryover from earlier years (of reportedly non-exportable grades).

Table 7-14: Seed Cotton Sales, by Seller and Buyer Type, by Variety

Variety Unit	Registered Traders With Sales Rings				Registered Traders Without Sales Rings				Non-Registered Traders				Total Sample	
	Total Amount Sold as	Deliv. to Priv. Trad. Co.	% Deliv. to Priv. Buyers	Deliv. to Public Trad/Gin	Total Amount Sold as	Deliv. to Priv. Trad. Co.	% Deliv. to Priv. Buyers	Deliv. to Public Trad/Gin	Total Amount Sold as	Deliv. to Priv. Trad. Co.	Deliv. to Small Trader	% Deliv. to Priv. Buyers	Total SC Sales	Varietal Composit. of Total
	sk	sk	%	sk	sk	sk	%	sk	sk	sk	sk	%	sk	%
Giza 70	0	0	0%	0	22,000	22,000	100%	0	2,600	1,900	700	100%	24,600	14.5%
Giza 85	1,200	1,200	100%	0	36,603	36,603	100%	0	1,465	1,165	300	100%	39,268	23.1%
Giza 86	9,800	9,800	100%	0	77,867	77,867	100%	0	40	40	0	100%	87,707	51.6%
Giza 89	951	0	0%	951	3,010	3,010	100%	0	3,000	3,000	0	100%	6,961	4.1%
Subtotal, LS	11,951	11,000	92%	951	117,480	117,480	100%	0	4,505	4,205	300	100%	133,936	78.8%
Giza 80	0	0	0%	0	0	0	0%	0	7,500	7,500	0	100%	7,500	4.4%
Giza 83	0	0	0%	0	3,900	3,900	100%	0	0	0	0	0%	3,900	2.3%
Subtotal, MLS	0	0	0%	0	3,900	3,900	0%	0	7,500	7,500	0	100%	11,400	6.7%
Total	11,951	11,000	92%	951	143,380	143,380	100%	0	14,605	13,605	1,000	100%	169,936	100.0%

Source: MVE survey of seed cotton buyers, November-December 2000

Notes: 1) Subtotal of LS varieties does not include Giza 70, an ELS variety.

2) The four sample cooperative buyers sold all of their seed cotton to private traders. All of their cotton was sold as seed cotton.

3) Two registered traders without rings sold 3,900 sk of Giza 83 to private trading companies.

Table 7-15: Lint Cotton Sales, by Seller and Buyer Type, by Variety

Variety Unit	Registered Traders With Sales Rings				Registered Traders Without Sales Rings				Non-Registered Traders				Total Sample	
	Total Amount Sold as	Deliv. to Priv. Trad. Co.	% Deliv. to Priv. Buyers	Deliv. to Public Trad/Gin	Total Amount Sold as	Deliv. to Priv. Trad. Co.	% Deliv. to Priv. Buyers	Deliv. to Public Trad/Gin	Total Amount Sold as	Deliv. to Priv. Trad. Co.	Deliv. to Small Trader	% Deliv. to Priv. Buyers	Total SC Sales	Varietal Composit. of Total
	lk	lk	%	lk	lk	lk	%	lk	lk	lk	lk	%	sk	%
Giza 70	1,100	1,100	100.0%	0	13,800	13,800	100%	0	0	0	0	0%	14,900	20.0%
Giza 85	3,684	0	0.0%	3,684	0	0	0%	0	673	185	488	100%	4,357	5.9%
Giza 86	4,340	4,340	100.0%	0	0	0	0%	0	65	0	65	100%	4,405	5.9%
Giza 89	11,400	11,400	100.0%	0	840	840	0%	0	0	0	0	0%	12,240	16.4%
Subtotal, LS	19,424	15,740	81.0%	3,684	840	840	100%	0	738	185	553	100%	21,002	28.2%
Giza 80	29,960	29,960	17.1%	0	0	0	0%	0	0	0	0	0%	29,960	40.3%
Giza 83	8,554	6,298	73.6%	2,256	0	0	0%	0	0	0	0	0%	8,554	11.5%
Subtotal, MLS	38,514	36,258	94.1%	2,256	0	0	0%	0	0	0	0	0%	38,514	51.8%
Total	59,038	53,098	89.9%	5,940	14,640	14,640	100%	0	738	185	553	100%	74,416	100.0%

7.9 Trader Opinions about Cotton Marketing and Policy

7.9.1 Competitiveness of the Seed Cotton Market and Future Plans to Trade Seed Cotton

As shown in Table 7-16, most traders thought that the cotton market was more competitive this year than last year, a positive finding. Registered traders noted that there were more buyers outside the rings, who paid higher prices. Non-registered traders stated that the competition stemmed mainly from more overall buyers.

Table 7-16: Trader Opinions about Seed Cotton Market Competition, by Category Trader (is the market competitive and why?)

Trader Category	Total No. in Category	Yes	% Yes	More Buyers Overall	More Buyers Outside Rings	Other Traders Pay More	Coops Offered Higher Prices
Unit	n	n	%	n	n	n	n
Registered Traders, all	27	21	78%	6	8	11	0
with Rings	19	15	79%	4	5	9	0
without Rings	8	6	75%	2	3	2	0
Co-operatives	4	2	50%	1	1	0	0
Non-Cooperatives	4	4	100%	1	2	2	0
Non-Registered Traders	20	17	85%	7	4	4	3
Total	47	38	81%	13	12	15	3

Note: Several traders gave more than one reason for increased competition.

Another positive finding is that all of the sample traders plan to trade seed cotton next year. When asked about minimum seed cotton prices in 2001, registered traders favored the GOE setting them in order to encourage cotton production as well as to provide guidance to traders. Underlying this preference is registered traders' concern that cotton area and production were very low during the past two years. These traders assume attractive floor prices will lead to higher production in 2001. Preliminary estimates about area planted of seed cotton in 2001, as high as 750,000 feddans, suggest that this will be the case. Note also, however, that low returns to rice grown in summer 2000 is what has driven the shift to cotton in 2001. Another possible explanation for registered traders' preference for GOE-set floor prices is the hope that the GOE will set these prices high enough to drive relatively more seed cotton sales through PBDAC sales rings, rather than outside the rings, as took place in 2000/01.

Non-registered traders do not want minimum producer prices, preferring to let the market work, as they believe that free pricing is better. Over the past three years, MVE has interviewed nearly 100 non-registered traders. Their national population is unknown, but their numbers are considerable. With a freer system, more would emerge.

Most traders thought the market was more competitive this year than last year. Registered traders emphasized the fact that other traders, buying outside the rings, paid higher prices, which was the main reason for the shortfall in deliveries received at rings relative to anticipated deliveries. Other (related) reasons given were that there were more overall buyers and more buyers outside the sales rings.

85% of the non-registered traders said the market was more competitive, stating that the most common reason was there were more overall buyers. Three of 17 also noted that the coops offered higher prices.

7.9.2 Sources of Information

The most common sources of information varied by type of information and trader. For information about cotton production, public announcements of MALR officials were considered the best source. MALR extension agents were also considered a useful source. The third most commonly cited source was other traders, ginneries, and the local cotton trading committee.

According to registered traders, the best source of price information was the Supervisory Committee. Other traders and large companies that bought from registered traders were also important sources. As for non-registered traders, other traders and buyers were considered the best sources of price information.

Registered traders had quite different sources of information about cotton marketing rules and regulations. Registered traders reported that the Supervisory Committee and MALR officials were the best sources of information, while the local trading committee and CATGO were other sources. Non-registered traders stated that other traders were the best source of information about trading rules. The Supervisory Committee and MALR officials were cited far less commonly.

8. TRADING OF SEED COTTON BY MAJOR TRADERS

8.1 Public Trading and Exporting Companies

The six public trading and exporting companies purchased 687,197 seed kentars at PBDAC rings (Table 8-1), 298,995 kentars from the AR and LR co-operatives and delivered 1,013,781 kt. to the gins in the 2000/01 season. Their purchases from private traders is estimated at 27,589 kt.³⁷ Thus, total purchases by these six companies represented 29.2 percent of the total seed cotton crop. This compares with 63.7 percent of the seed cotton produced in 1998/99 and in 1999/00. These six companies purchased 26 percent of the ELS cotton, 30 percent of the LS varieties in the Delta, and 28 percent of the MLS varieties in Upper Egypt.

Table 8-1: Seed Cotton Received by Public Cotton Trading and Ginning Companies from PBDAC Sales Rings, by Variety, 2000-01

(seed kentars)								
Public Trading Co.	G-70	G-88	G-85	G-86	G-89	G-80	G-83	Total
Alexandria	4,014	0	21,347	21,111	24,815	16,502	16,901	104,690
MISR	10,700	3,830	7,686	13,933	21,456	14,794	18,057	90,456
Port Said	8,936	4,660	26,361	23,313	30,715	11,722	20,168	125,875
Al Kahira	4,875		18,428	30,938	26,434		16,747	97,422
Eastern	18,152	6,289	18,857	11,951	52,011	20,706	17,966	145,932
Alcotan	7,118	4,604	16,757	18,870	41,965	15,139	18,369	122,822
Subtotal	53,795	19,383	109,436	120,116	197,396	78,863	108,208	687,197
Public Ginning Co.								
MISR	0	0	6,074	2,323	1,931	9,018	3,700	23,046
DELTA	0	0	3,878	4,689	6,940	3,559	15,804	34,870
El Wady	0	0	1,201	5,830	19,377	880	0	27,288
Subtotal	0	0	11,153	12,842	28,248	13,457	19,504	85,204
Total of above	53,795	19,383	120,589	132,958	225,644	92,320	127,712	772,401

Source: PBDAC.

³⁷ In this chapter the estimates of purchases through private traders were largely made by subtraction of the purchases at the PBDAC rings and co-ops from the total deliveries to the gins. With this method, any errors in the PBDAC or co-op estimates will result in errors of the estimates of purchases from private traders. Any negative estimates for private traders indicate either sales of seed cotton to other firms or errors in the estimates of the deliveries to the gins.

**Table 8-2: Deliveries of Seed Cotton to Gins by Public Companies,
2000-01 Season**

(seed kentars)				
Company	Purchased at PBDAC Sales Rings	Purchased from Co-operatives	Purchased from Private Traders	Total Delivered to the Gins
MISR	90,456	50,000	15,791	159,551
Alex. Commercial	104,690	56,826	-1,965*	156,247
Al Kahira	97,422	56,345	3,893	157,660
Alcotan	122,822	46,967	-3,783*	166,006
Eastern	145,932	34,174	21,804	201,910
Port Said	125,875	54,683	-8,151*	172,407
Subtotal	687,197	298,995	27,589	1,013,781
Public Ginning Co.				
Delta	23,046	18,127	38,999	91,996
MISR	34,870	---	17,599	40,645
El-Wady	27,288	18,072	5,914	51,274
Subtotal	85,204	36,199	62,512	183,915
Total Public Cos.	772,401	335,194	90,101	1,197,696

Sources: Deliveries to gins reported by CATGO. Purchases at PBDAC sales rings reported by PBDAC. Purchases from co-ops reported by co-ops. Purchases from private traders are a residual, calculated as deliveries to gins (CATGO) minus purchases (from PBDAC+Coops).

8.2 Public Ginning Companies

The three public ginning companies purchased 85,204 kentars of seed cotton at the PBDAC sales rings, 36,199 through co-operatives, and an estimated 62,512 from private traders (Tables 8-1 and 8-2). Thus, only 5.3 percent of the total seed cotton crop delivered to the gins this season was purchased by these three public gins. The market share of the public gins is also declining. These three gins purchased 8.2 percent of the 1998/99 seed cotton crop. The public gins sell most or all of their lint cotton to domestic spinners. These companies are not exporters but they could sell lint to other exporters.

8.3 Spinning and Weaving Companies

Purchases of seed cotton by spinning and weaving companies in the recent era began in 1999/00 (13, page 57). In that season four publicly owned spinning companies purchased 158,042 kentars of seed cotton, or 4 percent of the seed cotton crop.

In the 2000/01 season six public and four private spinning and weaving companies purchased 194,941 kentars of seed cotton, or 5.6 percent of the crop. The bulk of this was purchased at the PBDAC rings with only small amounts purchased from co-ops (1,783 kt.) or private traders (822 kt.) (Table 8-4).

Table 8-3: Seed Cotton Purchased by Spinning and Weaving Companies at PBDAC Sales Rings

(seed kentars)							
Public S & W Cos.	G-70	G-85	G-86	G-89	G-80	G-83	Total
STIA		4,495	702	3,804	668	2,526	12,195
Dakahlia S&W	2,868	2,799	2,459	6,798	2,412	2,298	19,634
Delta S&W	3,546	6,131	4,704	9,414	1,195	6,193	31,183
Misr Mehalla	3,347	3,296	3,550	11,728	6,664	1,375	29,960
Sharkia linen		2,572	2,467	6,036	2,483	218	13,776
Shebin El Kom	2,832	5,430	1,540	6,514	1,565	2,738	20,619
Subtotal	12,593	24,723	15,422	44,294	14,987	15,348	127,367
Private S & W Cos.							
Arabia S. & W	2,748	2,961	5,327	5,193	1,250	729	18,208
Giza S. & W.		10,897	367			1,227	12,491
Misr-Iran	6,756	5,080	2,298	14,053	2,081	4,002	34,270
Subtotal	9,504	18,938	7,992	19,246	3,331	5,958	64,969
Total, all Spinners	22,097	43,661	23,414	63,540	18,318	21,306	192,336

Sources: PBDAC, cooperatives

These ten spinning and weaving companies concentrated on purchases of LS varieties. They purchased only 22,097 kentars (11.3%) of ELS varieties (G-70 only), 131,437 kentars (67.4%) of LS varieties from the Delta (G-85, G-86, G-89) and 41,407 kentars (21.3%) of MLS varieties from Upper Egypt (G-80 & G-83).

Table 8-4: Deliveries to the Gins of Seed Cotton by Spinning and Weaving Companies, 2000-01 Season

(seed kentars)					
Public Spinning Cos.		At PBDAC Sales Rings	From Co-ops	From Private Traders	Total Purchases
Public Spinners	STIA	12,195			12,195
	Dakahlia S & W	19,634			19,634
	Delta S & W	31,183			31,183
	Misr-Mehalla	29,960			29,960
	Sharkia-Linen	13,776			13,776
	Shebin El Kom	20,619			20,619
	Subtotal	127,367			127,367
JI	Misr-Iran	34,270			34,270
Private Spinners	Alexandria S & W			822	822
	Arabia S & W	18,208			18,208
	Giza S & W	12,491	1,783		14,274
	Subtotal	30,699			33,304
Total, all Spinners		192,336	1,783	822	194,941

Sources: PBDAC, Cooperatives.

8.4 Private ALCOTEXA Companies

Estimates of purchases of seed cotton by 15 private sector members of ALCOTEXA in the 2000/01 season at PBDAC rings are somewhat surprising (Table 8-5). Modern Nile, which in recent years was the leader in market shares in the private sector had only one PBDAC ring

and purchased only 4,231 kentars at this ring. The Egypt Ginning Company, owned by the Modern Nile Group, had one ring and bought 3,478 sk. Arab Ginning, which is affiliated with Modern Nile, had an allocation of six rings, but this gave a total of only seven rings for this private sector share leader. Similarly, NASSCO, which usually is in 2nd or 3rd place in terms of volume, used only two PBDAC rings. We will see below that these firms secured most of their seed cotton from co-ops.

Table 8-5: Purchases of Seed Cotton at PBDAC Sales Rings by Private ALCOTEXA Members, by Variety, 2000-01 Season

(seed kentars)									
Company	# Rings	G-70	G-88	G-85	G-86	G-89	G-80	G-83	Total
Modern Nile	1			0	0	0	0	4,231	4,231
Arab Ginning	6			6,051	0	0	0	3,939	9,990
NASSCO	2			3,552	0	0	0	5,416	8,968
ATICOT	9			1,506	3,607	8,921	2,187	2,852	19,073
El-Mabrouk	12	2,744		3,734	6,329	11,800	1,852	3,044	29,503
Talaat Harb	14	4,061		4,720	11,305	9,910	1,032	4,667	35,695
Tanta	22	4,177		245	8,988	8,697	4,288	6,139	32,534
Al-Watany	9	5,462		8,684	5,004	9,516	0	6,628	35,294
Benha	8	3,659		4,598	2,842	15,765	2,194	2,105	31,163
Nile Ginning	17	3,457		10,434	6,593	20,695	4,250	2,402	47,831
Abu-Madawy	5	8,444	7,431	1,439	1,455	0	0	1,181	19,950
EMEPAC	9	1,204	0	1,453	743	7,288	1,330	2,056	14,082
EDCO	6	1,612	0	2,084	1,841	1,236	640	928	8,341
El-Sayadco	6	2,982	0	3,397	1,822	4,556	1,627	2,182	16,566
Inter. Crops	8		0	1,613	2,847	3,170	1,570	5,498	14,698
Total	134	38,525	7,431	53,010	53,376	101,554	16,720	50,866	331,397
% Sales at Rings	16.5%								14.4%

Source: PBDAC

The use of so few PBDAC rings by these large private firms was mainly a strategy to cope with the ring allocation system discussed in Chapter 2. These firms were allocated a small number of rings but, for example, to avoid any potential loss in subsidies (which were never paid), Modern Nile chose to buy a large share of their seed cotton from other private firms. Some of these small private firms bought seed cotton exclusively at PBDAC rings while other traders bought largely or exclusively outside of rings (See Chapter 7). Hence, those who had followed the SC rules in buying only through official channels were eligible for any possible subsidy payment.

Table 8-6 presents estimates of total deliveries of seed cotton to the gins by these 15 private ALCOTEXA members. Actually, two estimates are presented, one based on CATGO data and the second based on estimates provided by the major companies. Four of these private sector companies, Modern Nile, ATICOT, Tanta, and Talaat Harb, provided substantially different estimates of deliveries of seed cotton to the gins than was reported by CATGO.

Some of this difference in the two estimates is a result of confusion in reporting at the gin. Much of this cotton was purchased by small private traders from producers but resold to these four larger traders. The confusion deals with the time of sale. Was it sold to the larger company before or after delivery to the gins? Usually the larger company was providing financial backing and the decision to sell had already been made before it was first purchased, but confusion resulted at the gin as to ownership. These quantities were probably reported in Chapter 7 as first round purchases of seed cotton by the smaller private traders, and correctly so. These re-sales are considered here as sales of seed cotton. The estimates reported by the companies are considered to be the most reliable.

**Table 8-6: Deliveries of Seed Cotton to Gins by Private ALCOTEXA Members
(seed kentars)**

Company	PBDAC Rings	Co-ops	Other Private Purchases	Deliveries to Gins (CATGO estimates)	Deliveries to Gins (company estimates)
Modern Nile	7,709	220,981	33,939	262,629	344,000
Arab Ginning	9,990	37,399	-5,816	41,573	(In Modern Nile)
NASSCO	8,968	109,365	16,151	134,484	134,484
ATICOT	19,073	39,869	4,062	63,004	104,000
El-Mabrouk	29,503	104,725	14,502	148,730	136,721
Talaat Harb	35,195	55,007	-8,891	81,811	92,000
Tanta	32,534	19,917	38,861	91,312	112,711
Al-Watany	35,294		-1,187	34,107	37,000
Benha	31,163		5,482	36,645	NE
Nile Ginning	41,894	12,237	-14,807	52,941	54,128
Abu-Madawy	19,950		791	20,741	NE
EMEPAC	14,082		0	14,082	NE
EDCO*	8,341		-3,451	4,890	NE
El-Sayadco*	16,566		-3,413	13,153	NE
Inter. Crops	14,698		3,662	18,360	NE
Subtotal	331,397	599,500	87,565	1,018,462	1,122,915

Sources: PBDAC, Cooperatives, CATGO, individual companies.

*It appears that six companies resold seed cotton to other private traders. Other private purchases appear as a negative number for those companies.

Note: NE= No estimate. If no estimate is available for a company (in the final column), the delivery figures reported by CATGO are used.

8.5 Buying Directly from Producers

All private companies and individuals were permitted to buy seed cotton directly from producers. The public companies were told that they were permitted to buy seed cotton outside the sales rings also, but some found it disadvantageous to do so.³⁸

Many of the private trading companies that delivered seed cotton to the gins purchased some cotton directly from producers. This method of buying includes the operation of private sales rings (excluding the PBDAC sales rings), village based collection centers, and mobile buying units. Private trading companies also bought directly from registered or non-registered traders, who bought directly from producers.

The estimates of direct private purchases outside of the rings (in Table 8-6) were obtained by subtracting the estimates of purchases at the PBDAC rings and by the co-ops from the total deliveries to gins as reported by the companies. This method of estimation gives a total estimate of 234,735 seed kentars purchased directly from farmers or from other private traders who bought from farmers. Of this amount the 15 ALCOTEXA members supposedly purchased 87,565 sk leaving 90,101 sk for, public buyers and 102,860 sk for smaller private buyers. Negative purchases were calculated for spinning companies.

However, much of this seed cotton (the 202,000 sk) had been purchased directly from farmers by the smaller private traders and then resold to these ALCOTEXA members.

³⁸Officials of public sector companies indicated that buying outside of the PBDAC sales rings meant some accounting problems for them. Without official receipts from PBDAC on quantities purchased and prices paid for seed cotton, they had no documentation to show to the public accounting officials regarding their buying activities, and hence they would be open to charges of corruption.

Tanta (See Table 8-6) purchased 42.6% of its seed cotton directly through private traders, the highest percentage for any large buyer. Actually, the owner of Tanta reported that his company purchased 66,226 sk at about 10 of his own private sales rings. Of this amount, 23,719 sk were delivered to the gins by the Arabia Ginning Co. This was done because of the possible loss of subsidies and because the SC also threatened to take away his license for buying outside of the rings. This cotton was purchased directly from producers in company-managed sales rings. ATICOT also purchased a large share (43%) of its seed cotton from farmers.

No attempt was made to estimate the number of privately operated sales rings in the 2000/01 season. In addition to those operated by Tanta, some sales rings were operated by Modern Nile and Nassco, and others. Many of the smaller private traders discussed in Chapter 7 operated their own sales rings or collection centers.

Table 8-7 summarizes the buying activities of these 15 private exporters. As a group they bought 29.3 percent of the seed cotton produced this season, and 59 percent of their seed cotton came from co-ops.

**Table 8-7: Summary of Seed Cotton Buying Activities of the Private Sector
ALCOTEXA Member Companies, 2000/01 Season**

Marketing Channel	Seed Kentars Purchased	Share of Crop of 2000 (%)	Share of Purchases of this Group (%)	Number of Companies Buying this Way
PBDAC rings	331,397	9.5	32.5	15
Directly from producers (or small traders)	87,565	2.5	8.6	8
Through co-ops	599,500	17.3	58.9	8
Total purchases	1,018,462	29.3	100.0	15
Total production	3,473,692	100.0	--	--

Sources: PBDAC, CATGO, interviews with ALCOTEXA members.

8.6 Concentration in the Seed Cotton Market

Based on data on deliveries to the gins, it appears that one firm, Modern Nile, dominated the private sector with nearly 1/3rd of the total seed cotton purchases (Table 8-8). Concentration is generally not a healthy market situation. However, in this situation this firm is not presently setting prices, controlling supplies, or controlling entry of firms. This firm, and all other firms, were actively competing for both seed cotton and lint cotton this season. This firm purchases 10 percent of the total seed cotton crop in the country and also purchased lint cotton, which gave it 16 percent of the lint cotton market. However, this firm is overshadowed by the public sector firms, which as a group (under the same holding company management) handled 20 percent of the market and generally do not compete with each other.

Table 8-8: Concentration of Private Sector Firms in the Seed Cotton Market

Private firms ranked by share Of market	Percent of private sector purchases (CATGO data)	Percent of private sector purchases (Company data)
Firm # 1	29.9	30.6
Firm # 2	14.6	12.2
Firm # 3	13.2	12.0
Firm # 4	9.0	10.0
Firm # 5	8.0	8.2
Firm # 6	6.2	9.3
Firm # 7	5.2	4.8
Firm # 8	3.6	3.3
Firm # 9	3.3	3.3
Firm # 10	2.0	1.9
Firm # 11	1.8	1.6
Firm # 12	1.4	1.2
Firm # 13	1.3	1.3
Firm # 14	0.5	0.4

Source: Calculated from CATGO data and individual company data.

9. GINNING AND PRESSING

9.1 Ginning Operations

Ginning is the separation of the cotton seeds from the lint. Seed cotton is purchased from the producer on the basis of weight, and measured in seed kentars. A seed kantar is equal to 157.5 kg. of seed cotton. Lint cotton is measured and sold as lint, or metric kentars, which contain 50 kg. of lint cotton. Each seed kantar is expected to yield approximately one lint kantar but this varies since the number and size of the seeds varies with the variety and with growing conditions. Variations from this one-to-one ratio are called the ginning outturn. For example, as shown in Table 9-1 the average ginning outturn for all varieties in 2000/01 was 1.19 or 119 percent. This was an unusually good average ginning outturn. This means that in 2000/01 the average kantar of seed cotton produced 59.5 kg. of lint cotton (50 kg. * 119 percent).

Table 9-1: Ginning Outturns by Variety, 1998-2000 Seasons
(Percentage)

Variety	1998	1999	2000
G-45	96	101	NG
G-70	108	115	115
G-88	NG	NG	120
G-85	120	120	121
G-89	118	116	124
G-86	116	117	118
G-80	109	118	117
G-83	113	115	115
All Varieties	115.3	116.7	119.4

Sources: 1998 and 1999 from MALR. Data for 2000 from CATGO.

NG = Not grown

All seed cotton in Egypt is ginned with roller gins. Despite the technological advances that have been made throughout the world in cotton ginning, both Egyptian and foreign spinners agree that the leather-faced roller gins in Egypt are the best type of gin for ginning Egyptian ELS cotton. The rollers in these gin stands are faced with leather made from heavy buffalo hides.

Many seed cotton owners, especially those traders who want to produce a quality product, will station their own staff at the gin to supervise operations while their cotton is being ginned. These staff supervise the cleaning, blending, and the adjustment and operation of the gin stands. The rollers and knives on the roller gins can be adjusted with differing grades of cotton. The final grade of the lint cotton will depend upon these types of adjustments.

Gins in Egypt are generally limited by the MALR to gin only one variety of cotton. As stated earlier, the cotton variety produced in every area of the country is specified by the MALR in efforts to maintain varietal purity. Similarly, gins usually are permitted to gin only one variety in a season for the same reason. Exceptions to this rule are sometimes made. When a gin is used to gin two varieties of cotton during the same season, the gin must be cleaned and

then inspected by MALR officials after completion of the ginning of one variety and before it is permitted to begin ginning the second variety.

Ginning begins each season when a gin has received sufficient seed cotton to maintain continuous operations. This is usually about 15 October. Ginning operations are to be completed by March 31 each season. Completion of operations by that date are required by the MALR since all cotton seed is to be heat treated to kill the larvae of the pink bollworm before the next growing season begins.

9.2 Structure of the Ginning Subsector

The nationalization of the cotton sector in the early 1960's resulted in all gins being organized into five public ginning companies; Arabia, Delta, Nile, Misr, and El Wady. Originally there were 116 gins in Egypt.³⁹ In the 1992/93 season there were 72 gins. The MALR reported that 57 commercial gins operated during the 2000/01 season. This number has declined from 59 in 1998/99. However, the ginning sector still has excess ginning capacity. Based on an average length of season of 150 days, a maximum 16-hour working day, and one kantar/per stand per hour, each gin stand could gin 2,400 kantar per season. With 3770 stands (Table 9-2) about 9 million kantars could be ginned per season. The 2000/01 crop was only about 3.5 million seed kantars and hence these gins operated at only 39 percent capacity during the 2001 season.

Table 9-2: Ginning Companies and Deliveries of Seed Cotton to Gins
(seed kantars)

Ginning Companies	No. Gins	No. Stands	Seed Cotton Delivered	Lint Cotton Output	Average Ginning Out-turn	Share incl. Sakha	Share excl. Sakha
			sk	lk	%	%	%
Delta	14	834	882,400	1,063,424	120.5%	25.1%	25.2%
Misr	12	897	584,226	684,307	117.1%	16.6%	16.7%
El-Wadi	10	611	576,383	691,790	120.0%	16.4%	16.5%
<i>Subtotal, Public</i>	<i>36</i>	<i>2,342</i>	<i>2,043,009</i>	<i>2,439,521</i>	<i>119.4%</i>	<i>58.1%</i>	<i>58.4%</i>
Nile	9	650	698,920	835,769	119.6%	19.9%	20.0%
Arabia	11	718	753,700	899,041	119.3%	21.4%	21.5%
Baraka Egypt Gin	1	12	4,606	5,316	115.4%	0.1%	0.1%
Nefertiti (Minya)	1	60	0				
<i>Subtotal, Private</i>	<i>22</i>	<i>1,440</i>	<i>1,457,226</i>	<i>1,740,126</i>	<i>119.4%</i>	<i>41.4%</i>	<i>41.6%</i>
Sakha Gin	1		15,579	18,922	121.5%	0.4%	
<i>Grand Total</i>	<i>59</i>	<i>3,782</i>	<i>3,515,814</i>	<i>4,198,569</i>	<i>119.4%</i>	<i>99.9%</i>	

Sources: a) SWRMC-HC for numbers of gins and stands. b) CATGO (final figures as of June 2001) for deliveries to gins and lint out-turn

Notes: Percentages do not sum exactly to 100.0% due to rounding errors. The average ginning out-turn by company does not differentiate between variety. The MALR gin at Sakha produces seed used for planting in the following year. The gin at Baraka Egypt Ginning Company uses rotary knife technology, whereas all other gins in Egypt use leather-faced rollers and one reciprocating knife. The Nefertiti gin did not operate in 2000/01.

³⁹ As reported by Nabil Marsafawy, Chairman of CIT-HC.

The excess ginning capacity resulted from the decline in cotton production that Egypt has experienced over the past 50 years. During the 1950's Egypt cultivated an average of 1.8 million fd. of cotton. In the 1960s the average area of cotton was 1.7 million fd.; it declined to 1.38 million fd. in the 1970s; 1.0 million fd. in the 1980s, and since 1990 the average has been 824,000 fd. As stated earlier, the cotton crop in 2000 was the smallest area planted in over 100 years. Prior to the start of privatization of the ginning industry, seed cotton was divided among the five public ginning companies on the basis of the capacity of the various companies.

9.3 Privatization of Gins to Date

Leasing of gins was first permitted in 1994/95 and a total of 18 gins were leased to private companies in that season. Sixteen gins were leased by Al-Ahly (National) Company, one by Modern Nile and one by Nefertiti. During the 1995/96 season Al-Ahly Company dropped its leases on four gins due to the small size of the crop and other market difficulties.

Al-Ahly Company discontinued all of its remaining leases of public gins in the 1996/97 season because of financial problems. Also, no cotton was allocated to the gin leased to Modern Nile in 1996/97, so that company cancelled its lease also. Thus, only the one gin leased by Nefertiti remained leased through the 1997/98 and 1998/99 seasons and that five-year lease was concluded at the end of the 1998/99 season. Thus, privatization of the gins through leasing proved to be only temporary.

During the 1996/97 season, shares were sold on the Bourse for two public ginning companies, Arabia and Nile. Controlling interest passed to private ownership for these companies. Nile Ginning was owned entirely by private shareholders by late 1997. The General Agrarian Reform Co-op Society now owns a 17 percent share of Arabia Ginning Company and the balance is owned by Modern Nile.

No changes in ownership of gins have occurred in the past four years. The intentions of the public sector are to complete privatization of the remaining gins, but there is no clear timetable for this. Privatization of the three remaining public companies is at a standstill. The greatest hurdle to continued privatization is the excess ginning capacity situation and the high value of the land on which these gins are located. Many of these gins now sit inside regional cities and large towns. One ginning company manager reported that anyone buying a gin or ginning company is buying mostly land, not the gins. The main asset of the ginning companies is the real estate on which the gins are located.

In late March 2001 it was announced that the three public ginning companies were to be merged into one company and that 14 of the public gins will be closed for next season. This is a forward step both in the reduction of the excess capacity and hopefully will also become a step toward complete privatization of the ginning industry.

Ownership and operation of gins by traders is expected to improve lint quality. When the cotton owner has complete control of the gin, he can best ensure that he is ginning the cotton in the manner which will give the quality he wants to meet his sales contracts. We therefore feel that each trader, at least each lint exporter, should own his own gins. This implies that there would not be a separate ginning industry, only ginning subdivisions of each trading company.

9.4 Ginning Charges

It is common knowledge in the industry that charges for ginning are below operating costs. Ginning company officials interviewed over several years repeatedly report that their costs exceed their ginning revenues. This situation exists primarily because of the large excess ginning capacity in Egypt. These ginning charges have been gradually increased from LE 14.5/lint kantar in the 1994/95 through 1996/97 seasons to LE 17/kantar in 1997/98 and LE 18.5/lint kantar for the last several seasons, including 2000/01.

9.5 Competition in Ginning

Essentially, there is no price competition in ginning. All traders and ginning companies reported the same ginning charge, LE 18.5/lint kantar. Any competition that exists is in the quality, promptness, and range of services provided. Services related to ginning include transport to/from the gins, baling and coverings, handling of seed cotton within the gin (before ginning), and storage of lint cotton after ginning.

No quota system existed in 2000/01 in terms of division of the crop between the ginning companies. All trade officials and cotton traders reported that the ginning companies had to compete for market shares in 2000/01. All public and private trading companies that were interviewed reported that they had a choice in the selection of the gins at which they could have their cotton ginned. They report that they select gins on the basis of the equipment available at that gin, and the service provided by that gin. However, this selection process is always limited by the fact that only gins inside a varietal zone can be used for that variety and MALR prohibits the movement of seed cotton outside of the varietal area. Transportation costs also constrain the movement of seed cotton.

Some gins are also offering the services of new UD bale presses. This item is discussed below, but it is apparent that the use of UD presses is increasing.

Competition in ginning would likely be enhanced by a reduction in the number of varieties. With fewer varieties, the varietal zones would be fewer, and thus larger, and more gins would be competing for the seed cotton. Cotton owners would have more gins to choose from, thus permitting more competition.

9.6 New Investments in Ginning

None of the three public ginning companies reported any improvements or investments during the last two years. The Nile Ginning Company is still operating 8 gins. It made investments in UD presses and put them into use during the 1998/99 season. Before the start of the 2000/01 season the Nile Company made improvements in cleaning tables for seed cotton and in air cleaning of the lint cotton at two additional gins.

Arabia Ginning Company has made several improvements at its gins since last season, including construction of two new gins replacing two old ones. In Fayoum the new gin was built on desert land 6 km from the city of Fayoum. In Kafr El Sheikh land that was previously used for a brick factory was used for the new gin. Both of these gins have all new equipment including 44 gin stands obtained from India. These gins are of an English (Platt) design but with double rollers. The capacity per stand is rated at 1.6-1.7 kt per hr. compared to the old stands in Egypt of 1.0 kt/hr. Thus each new gin with 44 stands equals the ginning capacity of an old style gin with 72 stands.

Arabia Company also removed the old gin stands from its gin at Damanhour and installed 30 new stands, of the same design as the above two gins from India. Thus the new gin at Damanour has the capacity of 50 old stands.

Thus we see that despite the excess capacity situation in the ginning sector the private companies are making some investments in new equipment mainly in attempts to improve the quality of their product. Arab Ginning and its parent company Modern Nile have become the major exporter in the 2000/01 season. Maintaining leadership in exports will require close attention to the quality of the product.

The ginning sector has suffered from this excess capacity for years with the result that few new investments or improvements have been made. The company owners need to be concerned with the deterioration of equipment in the entire industry and take steps to avoid the possibility of a completely worn-out set of equipment at some time in the future. It is good to see some new investments in the industry.

9.7 Market Shares

Fifty-six private and 16 public companies delivered seed cotton to the gins during the 2000/01 season. As shown in Table 9-3, the private sector has slowly increased its market share since 1994/95. The data in Table 9-2 show that the private companies currently have 37.9 percent of the gin stands in the country and ginned 41.5 percent of the cotton. Since gins generally handle the seed cotton grown in the surrounding area, and since the variety to be ginned at each gin is specified by the MALR, only limited competition is possible in the ginning subsector. Hence one cannot expect market shares to change significantly unless gin ownership changes. There have been no shifts in gin ownership between the private sector and the public sector in the last four years, and thus market shares has been very stable.

Table 9-3: Market Shares of Ginning of Seed Cotton by Category of Company, 1994-95 to 2000-01

Type of Ginning company	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
Publicly owned	74.4	74.8	75.2	64.7	60.1	62.8	58.1
Privately leased	25.6	24.5	11.1	1.6	0.9	---	---
Privately owned	---	0.5	14.3	34.5	38.7	36.5	41.4
MALR gin at Sakha	N.A.	0.3	0.4	0.2	0.3*	0.4	0.4
Illegal gins (Dawalib)	N.A.	1.0	---	---	---	0.3	N.A.
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Data for 1994/95 through 1997/98 are from Holtzman and Mostafa (9) Table A-2. Data for 1998/99 are from CIT-HC. * Estimated. N.A. = Data are not available but estimated to be negligible. The 2000/01 shares do not sum to 100.0% due to rounding errors.

9.8 Pressing of Lint Bales

Beginning in about 1997, several private cotton exporters began to install new UD presses. These presses produce the so-called UD bale (universal density), which is also called the American bale. It contains about 24 lbs. of lint cotton/cu. ft., with a total weight of 480-500 lb. (218-227 kg). This type of bale is acceptable to foreign buyers. The UD bale reduces insurance, storage, and transport costs compared to the old low-density bales produced at the

gins. Export transportation costs are slightly higher with the UD bale than the high-density bales produced at Alexandria because slightly less cotton can be put into a container.

Currently the Arabia Ginning Company has UD presses at 7 of its operating gins and a UD press at its Baraka facility south of Alexandria.⁴⁰ NASSCO installed UD presses at three Delta Ginning Co. gins several years ago. NASSCO uses these Delta gins to gin its export cotton. NASSCO also uses these presses to do pressing on a custom basis for public and private exporters at a reported rate of LE 8/kentar.

The Nile Ginning Co. has UD presses at its gins at Etay Baroud, Kafr Zayat and Mehalla El Kobra. Their three presses are also used to press lint on a custom basis for other cotton owners at the same custom rate of LE 8/kentar. Nefertiti has a UD press at its gin in Minya. But this press was probably not used during the 2000/01 season, because this gin was not operated during this season.

The use of UD bales in Egypt was a major issue about 3-4 years ago. Some firms were in favor of its adoption and others opposed it, particularly public sector trading companies. This technology has now been generally accepted. It is estimated that 50-60 percent of all exports during the 2000/01 season will be of UD bales.

⁴⁰ The Baraka facility was built as a ginning facility but was never successful for that purpose because of the type of gins installed. It was purchased by Modern Nile-Arab Ginning and operates as a repressing facility for export. Modern Nile uses UD presses exclusively for all of its exports.

10. SPINNERS' ACCESS TO LINT COTTON

This chapter covers domestic spinners' access to Egyptian and imported cotton lint, with particular attention to private spinners' access. It presents data from both 1999/00 and 2000/01. We examine spinners' purchases of seed cotton at PBDAC sales rings, their purchases of Egyptian and imported lint, purchases of waste, and policy variables that affected public and private spinners' access to Egyptian and imported lint.

10.1 Purchases of Seed Cotton

The number of spinners buying seed cotton through PBDAC sales rings expanded from four companies in 1999/00 to nine spinners in 2000/01. In 1999/00, three buyers were public spinners, while one was a joint investment company. In 2000/01, there were six public companies, one joint investment company, and two private spinners, Unirab S&W and Giza S&W. The breakdown of their purchases, by company type, is shown in Table 10-1.

As a group, the nine spinners bought 192,336 sk at the sales rings, or 7% of the quantity bought at the sales rings and 5.5% of total deliveries to the gins. One private spinner also bought 1,783 sk from a cooperative. Note that we estimate that these ring-holders were able to buy about 71% of the seed cotton produced in the areas served by their rings. It is likely that the remaining 29% was sold outside the sales rings to cooperatives (who ran their own collection centers) or to private traders who bought directly from farmers or established private buying centers.

Two private spinners, Alexandria S&W (822 seed kentars) and Giza S&W (17,049 sk) bought outside the PBDAC sales rings.⁴¹ Giza S&W reported setting up private sales rings and also bought 1,783 sk from the Cotton Producers' Marketing Cooperative.

While spinning companies should be commended for their initiative in buying seed cotton, their participation in seed cotton marketing may be evidence of an imperfect market for seed cotton. In a well-functioning and liberalized market for seed cotton, public and private traders should be able to handle the marketing function of seed cotton assembly.⁴² They can then sell lint cotton to end users, including domestic spinners and foreign importers. The fact that domestic spinners felt it necessary to obtain PBDAC and also their own sales rings suggests that they did not trust the market to supply them with their entire lint cotton needs. It also clearly reflects spinner apprehension during two successive short crop years. Spinners may opt for fewer sales rings in 2001/02, when a more normal (larger) cotton crop is anticipated.

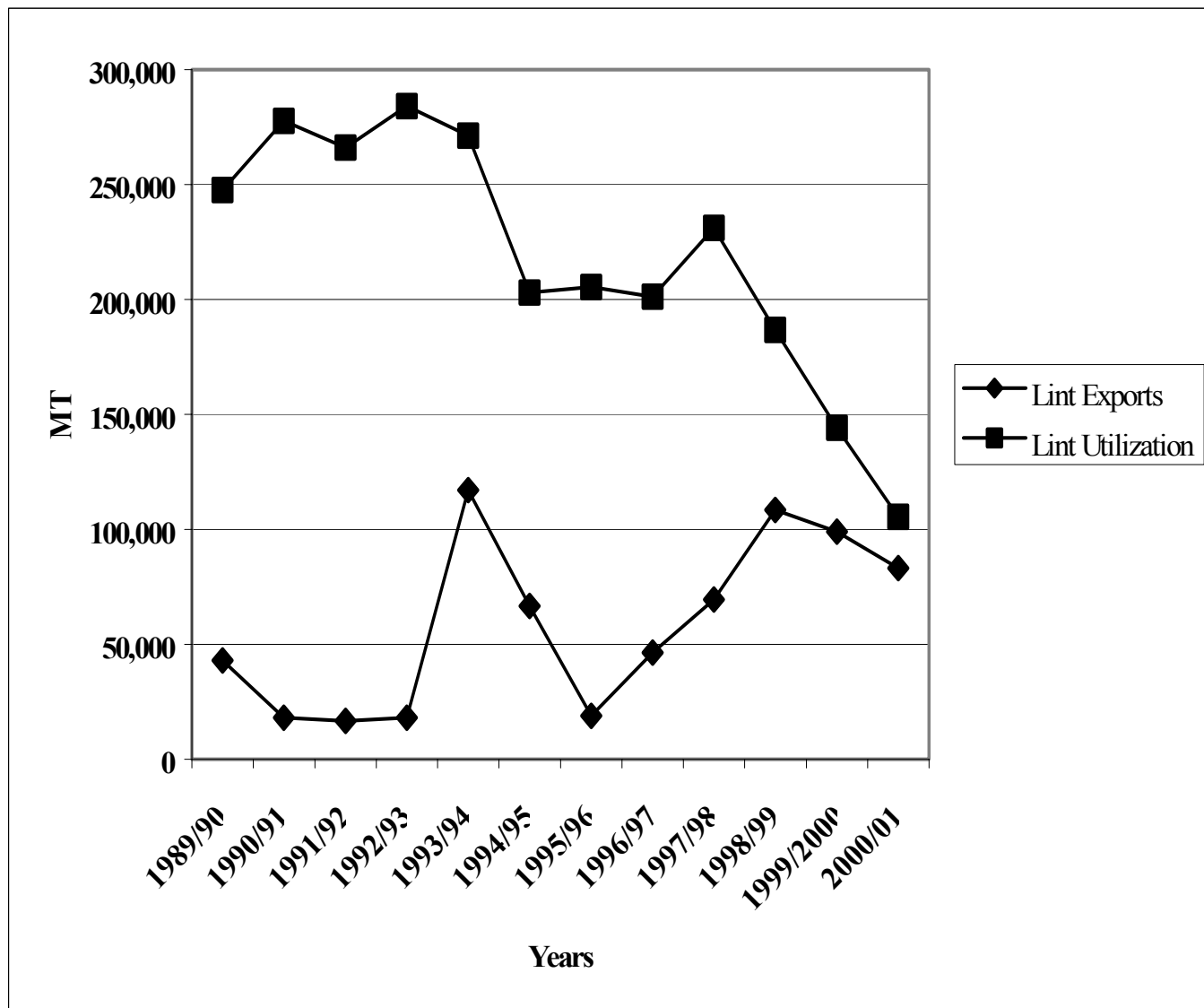
10.2 Domestic Utilization of Egyptian Lint Cotton

In the aggregate, Egyptian spinners' utilization of lint cotton has declined sharply since 1997/98, when it was 4.6 mlk. Figure 10-1 shows that lint exports have risen steadily since

⁴¹ Subtracting PBDAC ring purchases of seed cotton from CATGO deliveries to the gins, by company, suggests that 16,474 sk were bought outside the rings by ten spinners (including Alexandria S&W, which had no PBDAC rings). The CATGO data appear to be incomplete for several spinning companies.

⁴² Note that several spinning companies with sales rings subcontracted out the actual seed cotton buying and assembly at PBDAC rings to trading or ginning companies.

Figure 10-1: Domestic Lint Utilization & Lint Exports 1990/91 to 2000/01



1995/96, while domestic use of Egyptian lint fell during the 1990s to the lowest level of utilization in 36 years by 1999/2000, when it was only 2.9 mlk. From the figure, one can see that domestic lint use dropped from over 5.3 mlk up through 1993/94 to a range of 4.0-4.6 mlk from 1994/95 to 1997/98, before sliding to 2.882 mlk in 1999/2000. This decline in domestic use of Egyptian lint reflects the steady decline of the domestic spinning industry in Egypt, particularly the poor financial condition and performance of many public spinning companies. The demise of the public spinners is due to several factors that have been widely discussed and are well-known:

- The loss of the captive Soviet and Eastern European market in early 1990s led to reduced overall sales and massive inventory build-ups.
- Stagnant inventory reduced working capital needed to buy lint for further processing.
- Bank loans at high interest rates exacted a heavy financial burden on spinners who saw an increasing proportion of their revenues going to debt servicing.
- The preponderance of spinning of low- and medium-count yarn forced Egyptian spinners to compete in world markets with Asian spinners whose lint and labor costs were lower, and whose productivity was significantly higher.
- TCF set minimum export prices for low- and medium-count yarn that were and are still high and uncompetitive on world markets for those count ranges. One of the reasons for setting such high minimum prices has been to avoid charges of dumping.
- Labor redundancy has contributed to high “fixed” costs. Whether used productively or not, labor has to be paid in public spinning companies.
- Wearing out and idling of textile manufacturing equipment has contributed to declining rates of capacity utilization.⁴³ Idled machinery tends to get dirty and cannabilized; it is difficult to resume operations with such machinery at anything approaching installed capacity levels. Poor financial performance and high debt loads make rehabilitation of such machinery unlikely and new investment even more remote. Banks are unwilling to throw good money after bad.

By 1999/2000, the output of pure cotton and blended cotton/synthetic yarn in Egypt had declined 28 percent from the five-year average level of 309,873 mt (1992/93 to 1996/97). Public sector yarn output had fallen more sharply (52.5%) from the four-year average level (1991/92 to 1994/95) of 274,161 mt to 130,100 mt by 1999/00. In contrast, private sector yarn production rose steadily from a low base in the early 1990s to an estimated 92,979 mt in 1999/00, or 41.7 percent of total spinning industry output. As of mid-April 2001, deliveries of Egyptian lint to spinners were reported at slightly over 2.0 mlk. If deliveries were to increase another 40 percent before the end of the 2000/01 marketing season, domestic utilization would again be very low as in 1999/2000, an anemic 2.9 mlk.

⁴³ It is possible to have declining capacity utilization without idling spinning machinery. Once lint input and yarn output reach threshold low levels, however, idling of production lines typically takes place.

Table 10-1: Spinners' Purchases of Seed Cotton, 2000/01

(production & deliveries in sk)

Data Source	Initial Ring Allocation	Initial Area Covered (ha)	Estimated Cotton Prod.	Actual Ring Allocation	Adjusted Cotton Prod.	Actual Cotton Purchases	Actual/ Adjusted	Purchases from Co-ops	Purch. From Rings & Coops	Deliveries to Gins	Other Purch.
	PBDAC	MALR	Calc.	PBDAC	Calc.	PBDAC	Calc.	Co-op		CATGO	Calc.
Total Public Sector	57	27,992	187,207	57	187,135	127,367	68.1%	0	127,367	119,244	-8,123
Misir Mehalla	15	7,191	48,132	14	44,923	29,960	66.7%	0	29,960	28,748	-1,212
Delta S&W	12	6,470	43,233	12	43,233	31,183	72.1%	0	31,183	30,137	-1,046
Dakalia S&W	9	4,254	28,227	10	31,363	19,634	62.6%	0	19,634	17,317	-2,317
Sharkia for Linen	8	2,975	19,866	8	19,866	13,776	69.3%	0	13,776	13,781	5
STIA	5	2,612	17,747	5	17,747	12,195	68.7%	0	12,195	10,197	-1,998
Shebin El Kom S&W	8	4,490	30,002	8	30,002	20,619	68.7%	0	20,619	19,064	-1,555
Joint Investment Co.	12	8,692	58,411	11	53,544	34,270	64.0%	0	34,270	27,658	-6,612
MISR-Iran	12	8,692	58,411	11	53,544	34,270	64.0%	0	34,270	27,658	-6,612
Total Private Sector	12	4,036	26,938	13	29,183	30,699	105.2%	1,783	32,482	61,908	31,209
Unirab S&W	7	2,780	18,640	7	18,640	18,208	97.7%	0	18,208	31,546	13,338
Giza S&W	5	1,256	8,298	6	9,958	12,491	125.4%	1,783	14,274	29,540	17,049
Alexandria S&W	0	0	0	0	0	0	NA	0	0	822	822
All Spinning Cos.	81	41,285	276,438	81	269,861	192,336	71.3%	1,783	194,119	208,810	16,474

Sources: The Supervisory Committee for the Optional Cotton Marketing, PBDAC, CATGO.

Notes: 1) Estimated cotton production is calculated using average yields by variety * no. feddans covered by a company's sales rings.

2) Adjusted cotton production reflects a difference in rings actually allocated vs. the initial ring allocation, for which the corresponding area is known & production can be estimated.

3) Actual/adjusted cotton purchases is a percentage of anticipated production in the area of a sales rings that was actually bought at the sales rings.

4) Other purchases outside rings should be zero or positive. Negative numbers reflect the fact CATGO data are not yet complete or are erroneous.

While the GOE makes periodic announcements about its intent to privatize more public sector textile companies, industry insiders and analysts are pessimistic in the short- to medium-term. Attempts to privatize two of the better performing public spinning and weaving companies, Shebin El Kom and STIA, failed to attract anchor investor interest in 1999 and 2000. The prospects for privatization by sale to anchor investors or via the stock market are bleak for most public spinners. In a few cases, the most modern spinning units of public sector companies may be somewhat attractive opportunities for leases of 5-10 years. Private companies arranged leases with the Holding Company and MPE in three cases in 1998 and 1999: DIP Egypt's lease of an ESCO mill; Said Malek's lease of three spinning units at Minya al Kamh of the Sharkeya S&W Company; and Al Alamia's lease of a small open-end spinning line at the Cairo Dyeing and Finishing Company, under liquidation since 1998. These leases provide grounds for guarded optimism, but it is unlikely that other investors will show much interest in leasing units of public spinning companies under the present unpromising domestic and international market conditions.

Note also that attempts are underway to revive some public spinning companies. Misr Bank hired a senior textile industry consultant to turn around Misr Amriya, a troubled and highly leveraged joint investment company. Prior to the merging of the three cotton and textile holding companies into one HC, the HC-SWRMC let management contracts to an Indian textile management consultancy firm to improve operations at Misr Helwan S&W, the most indebted and dilapidated public spinning company in Egypt.⁴⁴ German experts are also providing management consultancy services to Dakhalia S&W Company. Chairmen of public sector spinning companies are asked periodically to prepare plans for rehabilitating and privatizing their companies. Their requests tend to be unrealistic, given funding constraints. Public sector banks are very hesitant to provide new loans, given high debt levels, and joint investment banks have no interest in providing funds to turn around bloated, poorly performing public companies.

The conclusion from the above analysis is that the public sector spinning industry will continue to decline, reducing domestic spinners' lint requirements.⁴⁵ These requirements have historically been established administratively by Holding Company Chairmen and the Chairmen of public sector spinning companies, many of whom rose through their companies to the top through the textile engineering/production track. These Chairmen often do not have a good understanding of markets, producing for particular markets (particular counts of yarn for particular clients), and promoting sales of Egyptian yarn. Public sector spinning companies are more often than not passive order-takers, whose one-time dependence on the undemanding COMECON markets allowed yarn output and exports to expand during the 1970s and 1980s, but at the expense of quality and competitive operations. The concept that yarn production has to be keyed to particular clients in particular markets did not take hold in

⁴⁴ Some industry observers were puzzled by this management consultancy. Why did the HC-SWRMC choose the worst-performing public spinning company for this assistance? It would make more sense to choose a mediocre or better-performing public spinner that would benefit more readily from such assistance (and selective investment) and be an earlier and more credible candidate for privatization.

⁴⁵ Note also that the lint needs of private sector spinners will increase gradually and not offset the decline in the public spinners' requirements in the medium term. Prospective investors are very cautious and will await significantly greater exit from the public sector spinning industry before building new plants. Few wish to inherit the accumulated problems of the public spinners through acquisition or leasing under privatization programs.

this environment. A common criticism of the public spinning industry has been that it has produced too broad a range of counts, including too much low-count yarn, using the best raw material in the world, Egyptian lint cotton, at high cost.⁴⁶

Domestic spinning industry “requirements” are therefore no longer amenable to administrative fiat, though this type of thinking still dominates GOE discussions of how to allocate the Egyptian cotton crop. In years of short supply, such as 1999/2000 and 2000/01, Holding Company officials have set domestic requirements at levels that strike many observers as high relative to real industry needs, as evidenced by declining utilization figures over the past four years. Domestic requirements appear to reflect wishful thinking regarding domestic industry operating levels and output and need to be scaled back significantly as the competitive interplay of world and domestic market forces sets the levels of lint prices and exports relative to domestic lint sales.

10.3 Purchases of Lint Cotton

10.3.1 Lint Purchases by Spinning Company Category

The Holding Companies historically allocated Egyptian lint cotton to the domestic spinners, who were predominately public sector spinners. The current system of lint allocation is partly administratively determined by a Lint Facilitating Committee of Holding Company officials and the heads of some public spinning companies, and partly market driven, particularly in the case of private traders’ sales of lint, largely to private and joint investment spinners. The Holding Company continues to track the distribution of lint to the larger spinners, including the public companies, the joint investment spinners, the privatized spinning companies, and the two private ring spinners. HC figures on lint purchases by smaller private spinners are incomplete.

Spinners’ purchases of lint for 1999/2000 and 2000/01 are shown in Table 10-2, though data are incomplete for both years. In 1999/2000, private traders supplied nearly 1.2 mlk to all spinners, a record high. This was over three times their total exports of 333,095 lk or 16,655 mt. This was also nearly a 50 percent increase over 1998/99, when private traders sold 805,000 lk to all spinners, which was also greater than private sector exports (of 459,459 lk or 22,973 mt) in that marketing year. Preliminary figures for 2000/01 of 683,559 lk sales to all domestic spinners suggest that private traders will sell less lint to spinners relative to the past two years. By the end of May 2001, private sector exporters had obtained export commitments of 42,177 mt or 843,540 lk (50.7% of total export commitments). The relatively greater profitability of exports in 2000/01 led to this shift in sales. While it was more profitable to sell lint to domestic spinners in 1999/2000 than in 2000/01, it was more attractive to export lint in 2000/01, due primarily to the fixing of seed cotton prices to

⁴⁶ The Minister of Public Enterprise was recently quoted as saying that lint purchases represent 66% of the operating costs of public companies. (See *Egyptian Gazette* article on “Local Textile Industry Needs Upgrading,” 22 April 2001.

Table 10-2: Private Spinners' Purchases of Egyptian Lint Cotton from Private and Public Traders in 2000/01 and 1999/2000

Spinner Type	Spinning Company	2000/01				1999/2000			
		Private Traders	Public Traders	Total	%	Private Traders	Public Traders	Total	%
Privatized Companies	UNIRAB	180,248	21,722	201,970		330,067	61,310	391,377	
	Alexandria S & W	259,616	12,306	271,922		197,996	48,470	246,466	
	DIP Egypt	0	59,118	59,118		0	55,328	55,328	
	Menia El Kamh	34,655	26,202	60,857		70,668	48,675	119,343	
	<i>Subtotal</i>	<i>474,519</i>	<i>119,348</i>	<i>593,867</i>	<i>97.7%</i>	<i>598,731</i>	<i>213,783</i>	<i>812,514</i>	<i>96.4%</i>
Ring Spinners	Giza S & W	0	0	0		4,157	255	4,412	
	Alcan Manai	2,175	14,807	16,244		0	2,887	2,887	
Open End	<i>Subtotal</i>	<i>2,175</i>	<i>14,807</i>	<i>16,244</i>	<i>2.3%</i>	<i>4,157</i>	<i>3,142</i>	<i>7,299</i>	<i>0.9%</i>
	Basioutex	0	16	16		0	2,413	2,413	
	El Anani	0	0	0		0	20,097	20,097	
	Daymtex	0	0	0		180	0	180	
	El-Masria Spinning	0	0	0		0	0	0	
Total Private	<i>Subtotal</i>	<i>0</i>	<i>16</i>	<i>16</i>	<i>0.0%</i>	<i>180</i>	<i>22,510</i>	<i>22,690</i>	<i>2.7%</i>
		476,676	133,451	610,127	32.0%	603,068	239,435	842,503	33.7%
	Joint Investment	96,286	101,181	197,467		10,737	97,199	107,936	
	Misr/Amerya	71,018	37,702	108,720		166,828	95,884	262,712	
	<i>Subtotal</i>	<i>167,304</i>	<i>138,883</i>	<i>306,187</i>	<i>14.6%</i>	<i>177,565</i>	<i>193,083</i>	<i>370,648</i>	<i>14.8%</i>
Total Private + JI		643,980	272,334	916,314	46.6%	780,633	432,518	1,213,151	48.5%
Public Spinners		39,579	1,152,660	1,192,239	53.4%	402,853	886,737	1,289,590	51.5%
Grand Total		683,559	1,424,994	2,108,553	100.0%	1,183,486	1,319,255	2,502,741	100.0%

Sources: Cotton and International Trade Company, monthly cotton bulletins (for 1999/2000). CATGO Report of the Activities of the Technical Association Sectors, Season 2000/01.

Note: Purchases for 1999/2000 are through 30 June 2000. Purchases for 2000/01 are through 19 April 2001.

ALCOTEXA export prices using a lower dollar to LE exchange rate (of 3.47 as opposed to rates of 3.7-4.0 LE/\$ that prevailed over much of the marketing season to date).

Private traders' share of the domestic market for lint was 47% in 1999/2000 but will likely drop in 2000/01 (it was 32.4% as of 19 April 2001). More striking is the fact that private traders sold 94.2% of their lint to private and joint investment spinners as of 19 April 2000/01, while it was 66.0% in 1999/2000 and 57.1% in 1998/99. Public trading companies (including ginners) sold 74.1% of their lint to public companies in 1998/99, 67.2% in 1999/00 and 80.9% in 2000/01. The pattern that has emerged is that private traders sell mainly to private spinners, while public traders sell mainly to public spinners. Such a bifurcation is not necessarily undesirable; it is not entirely unexpected. As profitability has declined among public spinners, private traders who demand upfront payment for lint have sold less and less lint to public spinners. The HC has apparently instructed public trading companies to supply public spinners, guaranteeing bank loans to these spinners in the process. Private traders will supply the better-performing, more financially solvent private spinners, as well as public spinners able to pay cash for lint.

10.3.2 Lint Purchases by Private Spinners

In December 2000, MVE conducted a survey of the 23 private spinners it had interviewed 1998/99 in, including five privatized companies, two ring spinners, three twisters, and 13 open-end spinners. All but five of the open-end spinners spun entirely Egyptian cotton lint in 1998/99; four companies spun only cotton waste and one company spun both waste and lint. The privatized spinners bought MLS and LS cotton, with little ELS purchased. The ring spinners bought ELS (Alcan Manai) and Sudanese acala (Giza S&W) to spin very different yarn counts. The nine open-end spinners who used lint spun only the cheapest Egyptian lint, Gizas 80/83.

By 1999/2000, two twisters had dropped out of twisting cotton. One bought low-grade ELS, out of trading companies' carryover stocks, to spin at another company's mill. Similarly, three open-end spinners ceased to spin cotton or cotton blends in 1999/00, followed by a fourth in 2000/01. Hence, the number of private sector spinners dropped to 18 companies by 1999/2000 and to 17 companies by 2000/01, with the breakdown of their purchases of lint and waste shown in Tables 10-3 and 10-4.

Table 10-3: Private Sector Spinners' Raw Material Purchases, 1999/00

(cotton in mt)

Category	No.	MLS	LS	ELS	Total E. Lint	Imported Lint	Waste	Total Cotton
Privatized	5	22,729	33,908	212	56,850	0	0	56,850
Open-End	10	4,370	100	0	4,470	0	3,740	8,210
Ring	2	265	100	811	1,176	2,100	0	3,276
Twisters	1	0	0	2,250	2,250	0	0	2,250
Total	17	27,364	34,108	1,024	62,496	2,100	3,740	68,336

Source: MVE Survey of Private Spinners, December 2000-January 2001.

Note: Twisters' input is not included in the total, because they do not buy lint but rather yarn.

Table 10-4: Private Sector Spinners' Raw Material Purchases, 2000/01

(cotton in mt)

Category	No.	MLS	LS	ELS	Total E. Lint	Imported Lint	Waste	Total Cotton
Privatized	5	12,152	11,749	460	24,360	0	0	24,360
Open-End	9	1,290	60	0	1,350	150	945	2,445
Ring	2	200	100	410	710	2,000	0	2,710
Twisters	1	0	0	2,000	2,000	0	0	2,000
Total	16	13,642	11,909	870	26,420	2,150	945	29,515

Source: MVE Survey of Private Spinners, December 2000-January 2001.

Note: 1) These figures are partial and cover less than half of the cotton marketing year 2000/01. Nevertheless, spinners buy most of their lint early in the marketing season in order to ensure that their requirements are covered.
2) Twisters' input is not included in the total, because they do not buy lint but rather yarn.

Note that three open-end spinners, who spun cotton, reported using some synthetic fiber in 1999/00 (420 mt) and 2000/01 (415 mt). As mentioned earlier, four open-end spinners who spun some cotton lint in 1998/99 switched entirely to spinning synthetic fiber by 2000/01. One more was planning to spin synthetics for at least a six-month period in 2001.

In 1999/2000, privatized spinners bought 91% of all the Egyptian lint used by all private spinners. Of the Egyptian lint bought by all private spinners, 43.8% was Giza 80/83 or MLS, 54.6% was Gizas 85, 86 and 89 (or LS), and only 1.6% was ELS. Egyptian lint represented 91.5% of private spinners' purchases in 1999/2000, with imported lint (3.1%) and waste (5.5%) making up the rest.

Early season 2000/01 purchases (through the end of December 2000) revealed a similar pattern. Privatized spinners bought 92% of all the Egyptian lint used by all private spinners. Of the Egyptian lint bought by all private spinners, a higher 51.6% was Giza 80/83 or MLS, a lower 45.1% was Gizas 85, 86 and 89 (or LS), and 3.3% was ELS. Egyptian lint represented 89.5% of private spinners' purchases in 2000/01, with imported lint (7.3%) and waste (3.2%) making up the rest. The slight shift to using more MLS probably reflects the higher lint prices of 2000/01 relative to 1999/00, and private spinners' need to minimize their raw material costs, which represent a high proportion of their variable costs (50-65%).

10.3.3 Differential Lint Access and Price Discrimination

In years of short cotton crops, such as the past two seasons, administrative allocation of sales rings, placing limits on exports of particular varieties, and guaranteeing domestic spinners' access to particular varieties have improved public spinners' access to lint while making private spinners' access more difficult and uncertain, with the possible exception of Unirab, Alexandria S&W, and Minya El Kamh, all former public sector spinners.⁴⁷ For the purposes

⁴⁷ Note that 33% of the shares of Unirab are still owned by the Holding Company, which means that the management of this privatized company is still partially public sector, and Unirab is subject to Central Accounting Authority (CAA) audits.

of this discussion, we do not consider the two joint investment companies, Miratex and Misr Amriya, to be private spinners.⁴⁸

Seed cotton prices were set at levels that did not require producer subsidies in 2000/01. Egyptian lint was, however, expensive for Egyptian spinners to use. In order to help out financially struggling public spinners, the HC-SWRMC is selling lint from both the 2000/01 crop and earlier crops (for Giza 70 only) at prices that are discounted relative to what private spinners and joint investment firms are paying.⁴⁹ Hence, subsidies are being paid (indirectly) to domestic public spinners. These subsidies obviously do not apply when public spinners buy from private trading companies.

As shown in Table 10-5, the discounts range from 3.0% (for Giza 85) to 14.9% for Giza 80 and 15.5% for Giza 83/90. The discounts that public spinners pay for Giza 70 from 1998/99 make that lower grade ELS lint comparable to prices that the public spinners pay for Giza 80, 83 and 90 in 2000/01. Similarly, the 1999/00 Giza 70 is priced at the 2000/01 Giza 85 level.⁵⁰ While the deep discounts on the carryover Giza 70 are one way to move old stock that is not of exportable grade, this constitutes price discrimination. And in an imperfect market for lint, where high import and transactions costs constrain lint imports and raise the cost of imported lint significantly, price discrimination can be and is being practiced to the benefit of the public sector spinners.

Subsidizing spinning by (largely) poorly performing public companies is the policy prerogative of the GOE, but it has an opportunity cost. Resources required to subsidize all public spinners, in a non-targeted way, could perhaps be better employed directly in strengthening the operations of several of the better performing spinners that are potentially easier to privatize. Furthermore, in a year of high lint prices and tight margins facing spinners, subsidies paid to public spinners but not to private spinners could limit private spinners' purchases of Egyptian lint and hence their capacity utilization. If the GOE wishes to encourage private investment in spinning and privatization, it should not apply price discrimination to Egyptian lint. This will limit private spinners' access to lint and send the signal to prospective investors that the GOE will continue to favor the public spinning industry. This goes against the intent and spirit of the GOE's privatization program and the GOE's efforts to promote domestic private investment, joint ventures and foreign direct investment.

⁴⁸ Note, however, that while Miratex and Misr Amriya bought 66% of their lint from public trading companies in 1998/99, this proportion had declined to 45% by 19 April 2001 of the 2000/01 season. As well-financed and credit-worthy buyers of large volumes of lint, these two joint investment companies represent attractive domestic sales outlets for private cotton traders.

⁴⁹ The fact that joint investment spinners are paying the same prices as private spinners and higher prices than public spinning companies lends some credence to the view that they should be treated as private companies from a management standpoint, even though their owners are clearly public entities. It may also simply reflect their greater financial resources and capacity to pay higher prices.

⁵⁰ Several trading companies noted that the carryover Giza 70 priced at the Giza 80/83 level for 2000/01 was grade Good or below. Giza 70 priced at the 2000/01 Giza 85 price was above grade Good but below grade Good + ¼.

Table 10-5: Cotton Lint Sales Prices for the Season 2000/01

Variety	To Private & Joint Investment Firms	To Local Spinning Companies	Price Difference	
	LE/kantar	LE/kantar	LE/kantar	%
Giza 70	395.39	267.75*	127.64	32.3%
	395.39	328.95**	66.44	16.8%
	395.39	367.2***	28.19	7.1%
Giza 88	391.04	359.55	31.49	8.1%
Giza 86	370.67	344.25	26.42	7.1%
Giza 89	348.26	336.60	11.66	3.3%
Giza 85	339.25	328.95	10.30	3.0%
Giza 80	314.55	267.75	46.80	14.9%
Giza 83/90	316.70	267.75	48.95	15.5%

Source: HC-SWRMC

Notes: * For 300,000 kentars of Giza 70 carryover that is non-exportable.

** For 200,000 kentars of Giza 70 carryover with normal grades and specifications.

*** For the season 2000/01 cotton crop.

In past years of APRP, price discrimination was not practiced in the same way. Old stocks of Giza 75 and Giza 70 were sold in 1998/99 and 1999/00, largely to public spinners, at discounts that were typically LE 50 per lint kantar (relative to year of production sales prices). There has not been differential pricing of current crop cotton for public and private spinners in past years. The differential pricing of 2000/01 reflects, therefore, a disturbing development in that the GOE (HC-SWRMC) intends to use the price mechanism to ration Egyptian lint to public spinners in addition to past reliance on administrative allocation of quota shares. This will also accentuate the trend toward public trading and ginning companies supplying public spinning companies, while private spinners will buy their lint increasingly from private trading companies (see section 10.3.1).

10.4 Lint Imports for Domestic Use

10.4.1 Past Imports During the Reform Period

From 1986/87 through 1995/96, Egypt imported significant quantities of American short-staple lint, averaging 687,684 lk (or 34,384 mt) per year, as shown in Table 10-6. The public sector in Egypt imported Sudanese lint only twice during this early agricultural policy reform period, though private sector importers brought in an estimated 40,000 lk in 1995/96. During the APRP period, beginning in 1996/97, there have been no imports of American lint. There have been, however, imports of lint from three countries near Egypt—Sudan, Syria and Greece. The private sector has played an active role in importing lint since 1995/96, although the public sector (HC-SWRMC) is still the dominant importer.

Table 10-6: Imports of Lint Cotton, 1986/87 to 2000/01, by Supplying Country
(in lint kentars)

Season	American	Sudanese	Greek	Syrian	Total
1984-85	616,056				616,056
1985-86	591,000	25,815			616,815
Early Policy Reform Period: Public Sector Imports					
1986-87	296,461				296,461
1987-88	609,423	17,487			626,910
1988-89	613,384				613,384
1989-90	1,137,775	8,015			1,145,790
1990-91	1,029,794				1,029,794
1991-92	1,260,000				1,260,000
1992-93	730,000				730,000
1993-94	0				0
1994-95	800,000				800,000
1995-96	400,000	40,000		12,000	400,000
Average	687,684				690,234
APRP Period: Public & Private Imports					
1996-97		44,000		4,000	48,000
1997-98		80,000		30,000	110,000
1998-99		1200		30,000	31,200
1999-00		112,000	330,000	30,000	472,000
2000-01		75,000	100,000	400,000	575,000
Total for APRP Per.	0	312,200	430,000	494,000	1,236,200

Sources: ALCOTEXA, HC-SWRMC, Interviews.

Notes: 1) Imports of cotton during the APRP period are rough estimates obtained from the cotton trade.

2) Sudanese and Syrian lint was imported by the private trade in 1995/96. All other imports from 1986/87 through 1995/96 were done by the Holding Company.

Establishing the exact quantities of lint imported privately is difficult. We report approximate private lint imports in Table 10-6, though these figures should be interpreted with caution. The private sector imported all the lint imported into Egypt from 1996/97 to 1998/99, but the quantities involved were modest—48,000 lk, 110,000 lk and 31,200 lk respectively. Due to large unsold inventories of Egyptian lint from 1996/97 through 1998/99, the holding companies for cotton and textiles discouraged public sector spinning companies from importing shorter staple lint. A handful of private traders and spinners imported lint from Sudan and Syria, however, mainly to meet private sector needs for cheaper raw material. The HC-SWRMC was the predominant importer in the short cotton crop years of 1999/00 and 2000/01, however, importing an estimated 70% of total lint imports during those two marketing seasons.

In 1999/2000, following a small 1999 Egyptian cotton crop, the TMT-HC announced tenders for 16,500 mt of medium staple cotton. A Greek exporter was the winning bidder. It took months to import this lint, largely because the TMT-HC protested paying sales tax on the imports. The lint shipments from Greece sat at the Alexandria port for several months, but

eventually the sales tax was waived and the lint was fumigated and then distributed to 15 public spinning companies, the two joint investment companies, and only one private company (Unirab) from February to June 2000. Most of the lint (90.3%) was supplied to public spinners; 9.3% was bought by the two joint investment companies; only 0.5% was purchased by Unirab.⁵¹

10.4.2 Imports in 2000/01

The consolidated Holding Company (HC-SWRMC) also imported lint in 2000/01. Greek exporters won the first tender for 15,000 mt, advertised in the second half of September 2000, but they did not accept the HC's request for three-month payment facilities. Hence, no Greek lint has been imported by the HC in 2000/01, although Misr Amriya concluded a separate deal to import 5,000 mt of Greek lint for its own use.

The HC advertised tenders in November 2000 for 20,000 mt of short-staple cotton. The Syrian Government made the most attractive offer, supplying their short-staple lint for 60 cents/lb., equivalent to LE 275/lk.⁵² Imports began arriving in December 2000. This lint has been distributed mainly (75.6%) to the public sector spinning companies and the two joint investment companies (12.5%). Three private spinners, Unirab, Alex S&W, and Basioutex, have used 11.9% of the imported lint, a higher percentage than for Greek cotton imported in 1999/2000 but lower than the private sector share of total spinning industry output.

While the HC has been the largest-volume importer of foreign lint in 1999/2000 and 2000/01, private companies have imported significant quantities of Sudanese acala and some Syrian lint. Giza S&W has been the largest domestic user of Sudanese acala since 1996/97, importing 2,100 mt in 1999/2000 and 2,000 mt in 2000/01 (as of early January 2001). In 1996/97 and 1997/98, Giza S&W obtained its Sudanese lint from Modern Nile, which imported an estimated 44,000 lk in 1996/97 and 80,000 lk in 1997/98. Another importer of Sudanese acala since 1998/99 has been Ibrahim Shokrie, who imported an estimated 60,000 bales (or 12,000 mt) in 1999/2000 and has import commitments of approximately 35,000 bales (or 7,000 mt) in 2000/01. There were also more modest volumes of imports of Syrian lint by private traders from 1996/97 to 1999/00, about 30,000 lk per year over the last three years.

10.4.3 Facilitating Spinners' Access to Imported Lint

As domestic spinners are forced to find cheaper sources of raw material, they will face increased incentives to use Sudanese, Syrian, Greek and other shorter-staple cotton for spinning low- to medium-count yarn. MALR/CAPQ needs to facilitate spinners' access to this lower-cost raw material. Since double fumigation is required, MALR inspectors have been required to observe the fumigation process at the port of origin. In the past, Egyptian importers have had to pay the full cost of MALR inspectors' trips and stays in foreign ports. In 2000/01, it appears as if these costs are now split between the importer and the MALR in

⁵¹ Although the HC claims 16,500 mt of Greek lint was imported, the two trading companies, Port Said and Al Kahira, who did the importing provided data that showed that 13,933 mt were actually imported.

⁵² Some spinners report that the final price for delivering Syrian lint to the mill had not yet been determined as of mid-March 2001. They predicted it could be LE 300/lk or higher.

some cases. Misr Amriya reported that it paid only for the airfares of the MALR inspectors to Greece and not the lodging and per diem costs of their stay in Greece. An importer of Sudanese lint reports that he pays the full cost of MALR inspectors to travel and stay at Port Sudan while fumigation is underway.

The logic of an import duty of five percent can also be called into question. One can argue that the shorter-staple lint imported for domestic spinning of lower count yarn should not compete directly with Egyptian long and extra-long staple cottons, which should be used to spin 40s counts and higher. In actual practice, Giza 80/83 have been underspun to produce 20s and 30s count ring yarn, as well as some open-end yarn of counts below 20. If imported lint is a necessary input for an export-oriented Egyptian textile industry, this lint should be brought into Egypt as cheaply as possible. Hence, we argue that the five percent duty should be waived on foreign lint imports. This is an issue for the High Committee on Customs Duties to take up in considering tariff reductions.

Finally, the issue of who gains access to lint imported by the Holding Company is an important one. In 1999/2000 and 2000/01, public spinners appear to have had preferential access. Since the public trading companies import foreign lint on behalf of the HC-SWRMC, and the public trading and spinning companies are affiliated companies to the HC, it may be normal and desirable that most lint imported by the HC go to public spinners. Private spinners, particularly larger, better financed, and more visible privatized companies, supposedly have access to HC lint. In practice, an HC Committee allocates the lint, although it claims to take expressed private spinner needs into account. The fact that some private spinners, as well as one joint investment company (Misr Amriya), go outside the HC channel to obtain foreign lint suggests that the public sector channel is imperfect.

The fact that the HC buys foreign lint in large quantities affects prices of shorter staple lint in nearby countries, according to private importers and prospective importers. In the case of the 20,000 mt purchase of Syrian cotton, the arrival of an HC negotiating team in Damascus allegedly raised price expectations. By late 2000, prices of all types of lint began to decline, which raises the question of whether the HC should have negotiated a smaller contract initially (say, for 5,000 mt) and followed up with a series of smaller contracts to benefit from downward price movements. It is easy to criticize with the benefit of perfect hindsight, but if the HC remains the major importer of foreign lint, it may wish to consider different contractual mechanisms for buying foreign lint, or to buy smaller quantities intermittently rather than make 1-2 massive purchases.⁵³

By importing large volumes of lint, the HC likely displaces some potential private sector imports. Private traders could import more lint if the HC were not such a predominant presence in the market. Private traders are willing to provide lint to spinning companies with cash to pay for it, whether public or private. Since only a handful of public spinners are credit-worthy, private importers have not and would not be willing to supply imported lint to all public spinners. This guaranteeing of lint (at the lowest possible prices) to all public

⁵³ For example, the HC could negotiate a contract that guarantees that it will purchase a large volume in increments, where prices are fixed for the first installment (shipment) but determined by a formula, based on world market pricers, for later shipments. Note that there are, however, some economies in shipping large lots, as it reduces the number of trips that MALR inspectors need to make to the exporting country, and freight rates are lower. At the same time, large-volume shipments tie up more capital for longer periods, as lint stocks must be held in storage.

spinners is probably the main reason why the HC imports large volumes of lint. If the HC ceased importing lint, many public spinners would obtain very little lint to spin in years of short cotton crops.

10.5 Spinners' Opinions about GOE Policies and Regulations

10.5.1 Private Spinners' Responses in the MVE Survey

All but one of the private spinner surveyed by MVE reported that their biggest problem was the high price of Egyptian lint, as shown in Table 10-7. Other problems mentioned included:

- high tariffs and taxes on imported equipment (6 open-end spinners mentioned this as a 2nd most important problem, and 1 or 2 as the most important problem)
- high price of Egyptian yarn (five privatized spinners noted this as a 2nd most important problem)
- difficulties in importing lint and getting access to lint imported by the HC
- difficulties in importing waste (3 open-end spinners cited this as the 3rd most important problem)

Responses to what the GOE could do to improve spinners' access to Egyptian and imported lint are shown in Table 10-8. Nearly all of the spinners said that the GOE needed to encourage farmers to grow more cotton, using subsidies if necessary. Fifteen of 19 also stated that upland cotton production should be promoted in Egypt. In order to facilitate spinners' access to imported lint, all of the respondents noted that the sales tax should be removed on imported lint, though it is not clear if they were confusing a sales tax with the import duty.

Eight of 19 called for increasing fumigation capacity at the ports, and four said the tariff should be removed. One of the spinners (who actually imports lint) noted that the GOE should drop the double fumigation requirement and cover the full cost of MALR/CAPQ inspectors who are flown to the exporting country to inspect the fumigation process.

10.5.2 Other Spinners' Observations

All spinners in Egypt complain about high prices for Egyptian lint, though public spinning companies appear to be satisfied with the subsidies put in place for them by the GOE. A number of spinners reported that their access to Giza 80/83 was limited in 2000/01, while actual stocks were 326,000 lk as of the end of April 2001. Whether these stocks are earmarked for later delivery to public spinners, or whether they remain unsold and unclaimed, is not clear. Apparently uncommitted stocks of Giza 86 (581,000 lk), Giza 89 (290,000 lk), and Giza 85 (173,988 lk) are also a surprise. If these stocks are truly uncommitted and there is limited domestic demand for them, the GOE might reconsider its export quotas (limits) on LS varieties. While export commitments for Giza 80/83 are higher at 5,730 mt (as of 26 May 2001) than most marketing years, export commitments for Gizas 85 (4,151 mt) and 89 (9,023.5 mt) are not high, relative to total lint supplies (28,263 mt and 53,818 mt respectively). This suggests that there are plenty of supplies available for delivery to domestic spinners.

Table 10-7: Rank Ordering of Problems Facing Spinners, by Spinner Type

Reason Cited	Private Spinners					Open - End Spinners					Ring Spinners					Twisters			
	1st	2nd	3rd	4th	5th	Total	1st	2nd	3rd	4th	Total	1st	2nd	3rd	Total	1st	2nd	3rd	Total
High Price of Egyptian Cotton	5	0	0	0	0	5	9	0	0	0	9	2	0	0	2	1	0	0	1
Limited Access to Egyptian Cotton	0	0	0	0	0	0	0	1	0	0	1	0	0	0	0	0	0	0	0
High Price of Egyptian Yarn	0	4	0	0	0	4	0	1	0	1	2	0	1	0	1	0	1	0	1
Difficulties in Importing Lint	0	0	3	0	0	3	0	1	1	0	2	0	0	1	1	0	0	0	0
Difficult Access to Lint Imported by HC	0	0	0	2	1	3	0	1	2	1	4	0	0	0	1	0	1	0	1
Taxes & Tariffs on Imported Equip.	0	1	1	1	1	4	1	6	2	0	9	0	0	1	2	1	0	1	2
Difficulties in Importing Waste	0	0	0	0	0	0	0	0	2	0	2	0	0	0	0	0	0	0	0
Limited Fumigation Capac. at Egypt. Ports	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0
Difficult Procedures for Importing Lint	0	0	0	0	0	0	0	0	1	0	1	0	0	0	0	0	0	0	0
High Price of Waste	0	0	0	0	0	0	0	0	1	0	1	0	0	0	0	0	0	0	0

Source: MVE Survey of Private Spinners, December 2000-January 2001

Table 10-8: Private Spinners' Recommendations for GOE Actions to Improve Access to Lint

Reason	Privatized Spinners	Open-End Spinners	Ring Spinners	Twisters	Total
Improving Access to Egyptian Lint					
Encourage farmers to increase production	5	10	2	2	19
Introduce & promote upland cotton	5	9	2	2	18
Subsidize cotton production	2	10	2	1	15
Others	5	9	2	2	18
	0	1	0	0	1
Improving Access to Imported Lint	5	10	2	2	19
Remove tariff on imported lint	1	2	1	0	4
Remove sales tax on imported lint	5	10	2	2	19
Drop double fumigation requirement	0	0	1	0	1
Cover cost of MALR inspectors	0	0	1	0	1
Increase fumigation capacity at ports	2	4	2	0	8
Improve access to HC lint imports	2	9	2	2	15

Source: MVE Survey of Private Spinners, December 2000-January 2001

One spinner who imports a large volume of lint from Sudan noted that fumigation facilities are limited at Egyptian ports. Fumigation under vacuum cannot be done at Suez, so acala imported from Sudan has to be fumigated at the Port Said or Alexandria ports. According to one importer, Sudanese acala is trucked to Port Said from Suez for fumigation in order to avoid costly fees for shipping by boat through the Suez canal. The fumigation facilities at Port Said and Alex are also limited,⁵⁴ which could affect the flow of imported lint to the spinning mills, particularly during years of large-volume imports.

Importers have noted that all the costs associated with importing lint, from flying MALR inspectors to the port of embarkation/fumigation to import duties, are high and reduce the competitiveness of most lint imports vis-a-vis Giza 80/83, which is considered superior raw material. The cost differential between the MLS domestic lint and the shorter-staple foreign lint has to be significant enough (say, 10-15%) for domestic spinners to prefer buying foreign lint. Giza 80/83 can be spun to higher counts of yarn than shorter-staple imports. Yarn spun from Giza 80/83 can also command slightly higher prices on the world market, for equivalent counts, than yarn spun from shorter-staple imports. Nevertheless, importers and spinners note that the GOE should try to reduce costs related to importing lint, which will strengthen the competitiveness of Egyptian exporters.

10.6 Conclusions

Domestic utilization of lint and the “requirements” of domestic spinners have not been addressed in any detail in past reports on cotton marketing under APRP and CSPP. The changed circumstances of the past several years dictate, however, that domestic lint sales and use receive greater emphasis. The short cotton crops of 1999/2000 and 2000/01 prompted the GOE to intervene to restrict exports of long-staple cotton lint, which reduced Egypt’s exports and foreign exchange earnings from lint, the number one earner of foreign exchange among agricultural commodities. The GOE argument for limiting LS exports both years has been the need to reserve Gizas 85 and 89 especially for domestic spinning.

Underlying this argument is the implicit assumption that domestic spinners can add value to this LS lint by spinning it locally. The yarn can then be exported, at higher net returns than lint exports, or used domestically by weavers, knitters and producers of RMGs to produce textile products for export (at again higher net returns) or for the domestic market, presumably substituting for imports and economizing on foreign exchange.

Given that much of the Egyptian lint is underspun into relatively low-count yarn, these implicit arguments for restricting exports of LS lint are not convincing. Note that most Egyptian yarn output and exports have been 20s and 30s counts.⁵⁵ Yarn and fabric exports dropped steadily in the second half of the 1990s, which show the declining competitiveness of

⁵⁴ The fumigation facility at Alexandria can handle 800-900 bales a day in three shifts. Assuming an average bale size of 200 kg., daily capacity is 160-180 mt/day. At this pace in Alex, imports of 20,000 mt of lint would take 110-125 days of operation to be fumigated—up to five months. According to one importer, the capacity of the fumigation facility at Port Said is about 900 bales/day.

⁵⁵ See Dahmouh, El-Sayed and Edgar Ariza-Nino, *Feasibility of Eliminating Tariff and Non-Tariff Barriers on Imports of Cotton Yarn*, APRP-RDI Unit Report No. 18, April 1998. Drs. Dahmouh and Ariza-Nino are preparing a follow-up study that examines in greater depth costs and returns to spinning different counts of yarn for publication in 2001.

most counts of Egyptian yarn on world markets. In addition, the impressive rise of exports of knits, woven garments and made-ups during the 1990s, using largely cheap imported yarn, did not depend on the utilization of much Egyptian lint.⁵⁶

The underlying objective of GOE policy regarding the public sector spinning mills at this point is to keep them open and running, albeit at lower levels of capacity utilization than during the early 1990s. To the Government's credit, it has cut the numbers of public sector textile workers from 206,653 in 1992/93 to 136,500 by 1999/00 by offering early retirement incentives to many workers and by not replacing retiring workers in many companies, except in a very selective and strategic way. The GOE also embarked on a serious privatization program for the textile industry at the beginning of APRP, but this program has since stalled for numerous reasons discussed in section 10.2. As of May 2001, the bottom line is that the GOE continues to operate too many public sector spinning companies, which are typically mis-managed, still employ too many workers sub-optimally, require significant (and unlikely to be forthcoming) investment to be rehabilitated, and are not attractive privatization prospects, especially as the Government insists on very high land and asset valuations.

In the final analysis, the whole issue of "domestic lint requirements" needs to be examined carefully. The conventional wisdom that Egyptian spinners require 4.0 million lint kentars or more per year has been shattered by the far lower domestic utilization of Egyptian lint in 1999/00 and 2000/01. Again, to the GOE's credit, the HC-SWRMC has imported cheaper shorter-staple lint cotton during the past two years to meet, in part, the needs of domestic spinners, particularly public companies. As discussed above, however, the HC's dominance of lint imports has crowded out, in part, private sector imports and kept some public spinners operating at higher levels of capacity than they could otherwise operate. So the correct policy response (allowing greater lint imports) has been implemented in a way that keeps failing domestic spinners operating longer (most at a loss) without addressing the priority of reducing domestic capacity, particularly public sector capacity.

Delaying the inevitable shrinkage of domestic spinning capacity⁵⁷ has an opportunity cost. Painful adjustments, particularly in local labor markets, are postponed, but resources continue to be mis-allocated at high cost. Given the policy centrality of the employment (or high unemployment) issue at the Cabinet level, the reluctance to downsize aggressively and close down unproductive and unprofitable spinning mills is understandable. It reflects, in part, an ambivalence about globalization of international markets and Egypt's relationship to those markets. The GOE wants to promote exports but also preserve employment, particularly old or passé sources of employment (such as public textile companies). However, increased exports will come from new private investment, both domestic and foreign, in agro-enterprises with longer-term profit potential, not propping up old and declining public industries, such as the textile, rice milling, and sugarcane processing industries.

⁵⁶ See Holtzman, John, *Liberalization and Privatization of Key Subsectors in Egypt's Agricultural Economy: Progress and Challenges*, APRP/MVE Unit Impact Assessment Report No. 14, November 2000 for a more in-depth treatment of these issues.

⁵⁷ One private sector cotton trader believes that Egypt's spinning industry will use only 750,000 to 1,000,000 lint kentars per year within five years. He also expects exports to range from 100,000 to 150,000 mt per year, up to nearly 50% higher than the average for the past three marketing seasons.

The ultra-gradualist model of sectoral adjustment, which has been implemented in a piecemeal fashion since 1986/87, is losing steam, and the time for bolder action has come. Privatization of more spinning mills, probably through leases or management contracts, needs to be accelerated. At the same time, allowing market forces to determine lint export levels for different varieties and domestic spinners' purchases, rather than administratively allocating lint to fulfill domestic spinners' requirements, *and* allowing the private sector to respond to the need for greater imports of cheaper, shorter-staple lint, rather than insisting the HC dominate imports, are important steps to completing the liberalization of the cotton marketing system.

10.7 The Future of Private Spinning in Egypt

As implied by the discussion above, we believe that the future of the spinning industry in Egypt is likely to be brightest for well-managed privatized companies and start-ups that concentrate on spinning high counts of yarn. Privatized companies that redeploy redundant labor and strive to increase yarn counts, as is the case of Alexandria S&W,⁵⁸ and who concentrate on a narrower range of medium to higher counts than the public spinning companies, should fare well. Well-designed ring spinning plants, established by private investors, should also do well if they take high-value Egyptian lint, spin it to high counts of yarn, and export the yarn. The Almatex spinning mill in Sadat City is an example of such a private investment, although it is said to have technical and production problems. Two private trading companies and ALCOTEXA members are contemplating investments in small ring spinning units in Borg El Arab; one of these investments will reportedly come on stream in early to mid 2002.

The future of open-end spinning in Egypt is less clear. Some industry experts say that this is a narrow niche where there has already been too much investment,⁵⁹ and where some small private spinners are likely to fail. MVE survey data seem to bear that out in part. MVE discovered 13 open-end spinners in 1998/99; by 2000/01, only nine of these spinners were still spinning cotton, while four had switched to spinning synthetic yarn. The basic problem with open-end spinning in Egypt is that spinners take expensive, high-quality raw material, Egyptian long-staple cotton, and spin it to low counts (generally below NE 20/1) that are suitable only for domestic use. Margins are very thin (or negative), and domestic weavers have alternative suppliers who can provide higher counts of ring-spun yarn for little additional cost. This yarn is either produced by public spinners or can be imported, under temporary admission, from India or Pakistan for manufacture of woven cloth, knits and RMGs for export. Improved access to cheap, shorter-staple imported lint could help to sustain

⁵⁸ The owner of Alexandria S&W, Samir Riad, opposes forced early retirement programs. He prefers to redeploy excess labor, typically in administration, to other tasks, such as manning textile machinery or running sewing machines. Note also that Alexandria S&W has increased its average count of yarn from NE 24-25 in 1998/99 to NE 27-28 in 1999/00 and NE 34-35 in 2000/01.

⁵⁹ Miratex used to have a large open-end spinning operation, which it closed in the mid-1990s. Miratex then sold its equipment to private investors who used it to start up new, smaller open-end spinning plants. Misr Amriya has a large open-end spinning unit which uses all the waste from its own spinning operations, as well as waste purchased from other public spinners. Misr Amriya reported buying 2,000 mt of waste during the first half of the 2000/01 marketing season to keep its large open-end spinning operation running. Note that other large spinning companies, such as Unirab, have open-end spinning units as well.

struggling open-end spinners, however, as few seem to have access to it.⁶⁰ Holding Company officials state that any spinner, public, joint investment or private, can apply for a quota share of imported lint. This may be true, but such access is probably not well advertised, and the HC-SWRMC likely focuses its distribution efforts on large, well-known spinning companies that are able to take deliveries of large volumes.

From MVE's late 2000 survey of spinners there is additional evidence that private investment in spinning, particularly open-end spinning, has slowed down since 1998/1999. One open-end spinner stated that he had invested in new machinery in 1999, while two others made investments during 2000—one in a new floor for adding equipment and a second in buying a new carding machine. Of the later two open-end spinners, Basioutex added the new floor and plans to buy new machinery for a ring-spinning operation, which is a different enterprise than his open-end spinning operation. One privatized spinner, Minya al Kamh, bought five new drawing machines in 2000 and also added a new knitting plant, which is not an investment in spinning but a complementary investment in a plant that will use the output of his leased spinning units.

Four private spinners, including one privatized company and three open-end spinners, stated that they would make additional investments during the next year (2001). The privatized spinner said it would buy spare parts to rehabilitate idled machinery (more of a deferred maintenance cost than an investment), while the three open-end spinners would add new machinery.

Planned additions to the labor force, all technical workers on the factory floor, were also reported to be modest by private spinners (see Table 10-9). The 17 operating private spinners of cotton in 2000/01 planned to hire only 135 more workers during CY 2001, a mere 0.9% above the base level of 14,795 workers in private spinning companies. Using this as a proxy for anticipated growth in the private spinning business, business prospects for private spinners

⁶⁰ One small private open-end spinner, Basioutex, obtained a lint quota of 1,250 bales of Syrian lint from the HC-SWRMC in 2000/01. Basioutex is also making an investment in ring spinning that may come on stream some time in 2001. This investment decision reflects, in part, the recognition that open-end spinning is not very profitable, while the profit potential in ring spinning is higher (though dependent upon quality/cost of inputs, counts of yarn spun, quality/prices of output, reliability and timeliness of supply).

do not appear to be robust.⁶¹ Another indicator, which is a proxy for productivity gains in private spinning, is changes, over the last year, in average wage rates, a relatively modest 2.5 %, which is actually even with reported inflation rates in early 2001.⁶² These data suggest that managers of private spinning companies are responding to perceived limited prospects for expansion by not hiring additional workers or making significant investments in new plant or machinery.

⁶¹ An alternative explanation for reduced hiring maybe that private spinners, as relatively new enterprises, are becoming more efficient in their labor use and hence do not need to hire more workers. A further factor contributing to reduced output and hiring is the general economic slowdown in Egypt.

⁶² The Ministry of Economy and Foreign Trade reports inflation in urban consumer prices (for the previous year) as 2.6% in January 2001 and 2.4% in February 2001. See the *Monthly Economic Digest*, April 2002 at the GOE web site: www.economy.gov.eg

Table 10-9: Employment, Intentions to Hire, and Wage Payments in Private Spinning Companies, 1999 and 2000

Type of Spinner	No. Cos	# Workers, Dec. 2000			Plans to Hire			Monthly Aver. Salary		Mo. Wage Bill
		Total Labor	Male	Female	No. Cos	% of Categ.	No. of Workers	1999 Aver.	2000 Aver.	
Privatized	5	13,201	12,760	441	1	20%	20	303	323	4,263,923
Ring Spinner	2	300	300	0	1	50%	10	367	380	114,000
Open-End Sp.	9	1,167	976	191	3	33%	105	265	265	309,255
Twister	2	115	113	2	0	0%	0	320	320	36,800
Total Sample	18	14,783	14,149	634	5	28%	135	314	322	4,760,126

Source: MVE survey of private spinners, December 2000-January 2001

11. EXPORTS OF LINT

11.1 History of Cotton Exports

Egyptian exports have been on a roller coaster the past decade (Table 11-1). Exports declined sharply in the late 1980's due to over-pricing of Egyptian cotton relative to world markets. However, production in Egypt was also down during those same years. Egyptian exports have varied from year to year due mainly to pricing problems, not from variations in demand. Witness how Pima exports have expanded in years when Egyptian exports declined, and vice versa.

Table 11-1: Exports of ELS and LS Egyptian Cotton and US Pima, 1986-87 to 2000-01 (in mt)

Market Season	ELS varieties	LS Varieties	Total	US Pima Exports
1986/87	60,163	61,187	121,350	24,800
1987/88	50,028	37,752	87,780	51,600
1988/89	38,157	21,816	59,973	57,700
1989/90	32,336	10,624	42,960	98,400
1990/91	13,094	4,911	18,005	90,400
1991/92	8,907	7,737	16,644	64,900
1992/93	9,327	8,745	18,072	72,200
1993/94	40,811	76,194	117,005	66,100
1994/95	28,268	38,446	66,714	92,300
1995/96	18,800	0	18,800	65,400
1996/97	18,058	28,379	46,437	101,500
1997/98	19,468	50,037	69,524	95,800
1998/99	19,624	90,823	110,447	62,800
1999/00	44,657	60,467	105,124	45,500
2000/01	34,554	46,870	81,424	90,600

Sources: *Egyptian Cotton Gazette*, No. 115, October 2000; weekly ALCOTEXA and *Cotton Outlook* bulletins.

Notes: Export figures for 2000/01 are commitments (not shipments) as of late May 2001. Actual shipments of Egyptian cotton may not attain the level of commitments. Five public cotton trading companies have also received commitments to export 1,687 mt of export type cotton in 2000/01, which is generally LS cotton of mixed varieties. Adding these 1,687 mt gives 83,111 mt.

11.2 Export Quotas

Early in the cotton marketing season the committee of Ministers concerned with cotton (See Chapter 2) agreed to export targets of 50,000 (1.0 mlk) of ELS varieties and the same for LS varieties for a total of 100,000 mt or 2.0 mlk. These export targets, or quotas, were set at a time when the expected production of lint cotton in the 2000/01 season was about 4 mlk. These targets were arrived at after considering the total expected production and the needs of the local spinning companies, and were based on the assumption that Egypt would import 1.3 mlk of cheaper cotton for use by the local spinning industry.

Export quotas are not in the spirit of a free market. We believe that decisions regarding cotton imports or exports should be based on prices and expected profits. However, the export quotas were considered "reasonable" by many in the industry, given the size of the 2000/01 crop. Egyptian economic policy makers have followed much more restrictive trade policies in the past. Most traders were of the opinion that these quotas were reasonable and manageable. In comparison with the export bans imposed during the previous season, the quotas of the 2000/01 season were less of a problem to Egyptian exporters, who generally considered this to be a good export season (see 15, Chapter 11).

11.3 Export Price Ranges⁶³

As reported earlier, (Chap. 2, Sec. 2.1)) a system of export price ranges was adopted by ALCOTEXA this season (Table 11-2). Initially, price ranges of 2-4 cents/lb. were specified, rather than a single price for each variety and grade. Buyers are asked to bid on cotton they wish to buy.⁶⁴ Supposedly a bid at the upper end of the price range will indicate strong demand and a bid at the lower range will indicate weak demand with the lower limit as the minimum price. Additionally it was hoped that this system would be a first step toward more open and free market pricing.

**Table 11-2: Export Price Ranges by Week and Variety, 2000-01 Season,
Grade Good + 3/8ths.**

(US cents/lb.)							
Variety	Weeks 1-5	Week 6	Weeks 7-8	Weeks 9-10	Weeks 11-12	Weeks 13-19	Weeks 20-end July
Beg. Date	9 Sept.	16 Oct.	22 Oct.	6 Nov.	20 Nov.	4 Dec.	21 Jan.
G-45	116-118	116-118	116-118	116-118	116-118	116-118	116-118
G-87	---	---	---	---	113-116	113-116	113-116
G-76	110-112	110-112	110-114	110-114	110-114	110-114	110-114
G-88	110-112	110-112	110-114	111-114	111-114	111-114	111-114
G-70	112-114	112-114	112-116	112-116	112-116	114-117	116-119
G-77	109-111	109-111	109-113	109-113	109-113	109-113	109-113
G-86	105-108	108-110	110-114	111-115	111-115	111-115	111-115
G-89	101-104	104-105	104-105	104-105	104-105	104-105	104-105
G-85	98-101	101-102	101-102	101-102	101-102	101-102	101-102
G-80,83,90	92-94	92-94	93-95	93-95	93-95	93-95	93-95

Source: ALCOTEXA weekly reports.

The procedure calls for computation of the weighted average of all bids received each week at each grade and variety, acceptance of those bids that were at or above the weighted average, and requests that bidders who had bid below the average to raise their bids. In practice, some bids for export were received by traders at the high end of the price ranges and some bids even exceeded the upper limit.

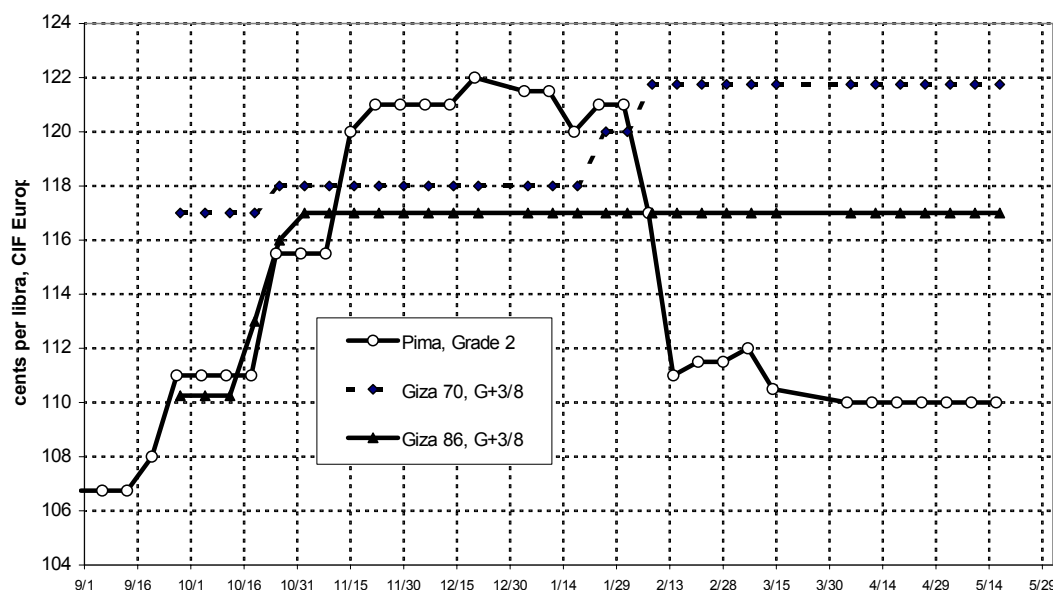
⁶³ See reference 15, Section. 7.4 for a more complete discussion of Egyptian cotton export pricing policy.

⁶⁴ When ALCOTEXA raised export prices on week 6 in mid-October 2000, the price ranges were narrowed for the three LS varieties of Giza 86,89, and 85. In week 7, the price ranges were widened for the ELS varieties Gizas 70, 76, 77, and 88 and for the LS variety Giza 86.

Most ALCOTEXA members who were queried regarding this price range system felt that it was confusing rather than helpful. They also indicated that most foreign buyers expressed displeasure with this scheme. However, some ALCOTEXA members feel that it was a step toward more price flexibility. One prominent member of ALCOTEXA pointed out that with this price range system the exporter now has a basis for rejecting a bid if it is not at the upper limit of the range. Previously when only one price was stated all bids at that price had to be accepted. ALCOTEXA, which is now dominated by private exporters, will no doubt re-examine this pricing scheme before the start of the next export season.

Figure 11-1 shows the movement of Egyptian and American Pima cotton prices during the 2000/01 season.⁶⁵ Note that the price of Giza 86 (the major LS export variety) and the US Pima price were very close early in the season. As shown in Table 11-2 some price adjustments were made early in the season. However, note two other points: the lack of flexibility in the Egyptian prices, and the drop in Pima prices late in the season with no corresponding adjustment in the Egyptian prices. This led to minimal further export commitments for Egyptian cotton after mid-November 2000.⁶⁶ Historically, export prices in Egypt have shown very little flexibility, with almost no cases of price declines.

Figure 11-1: Expected Prices of American Pima and Egyptian Cotton Varieties



Source : 1) Data from ALCOTEXA and Cotton Outlook. 2) Chart developed by Edgar Ariza-Nino, APRP/RDI.

⁶⁵ The price of US Pima essentially is the price in the USA (*Cotton Outlook*) adjusted for transportation cost to Europe.

⁶⁶ By November 2000 (the end of the ninth week of the Egyptian export season), export commitments had reached nearly 75,000 mt. As of late April 2001, export commitments were 82,469 mt. Consequently, 91% of the sales commitments were registered during the first two months of the season.

11.4 Private Sector Control of ALCOTEXA

Currently, ALCOTEXA consists of 25 members, including nine public firms and 16 private firms.⁶⁷ Elections of new officials and the Management Committee of ALCOTEXA were held in late October 2000. The newly elected management committee consists of 10 private sector members and two public sector members: 3 of 4 officers are private sector members (one remains a chairman of a public sector trading company). The newly elected officials were installed in January 2001 for three-year terms.

It is possible that major changes will occur in cotton export policy before the start of the 2001/02 market season. There will likely be major discussions at the upcoming ALCOTEXA meetings on these matters.

In interviews with various private sector exporters, several topics regarding export policies and practices have been mentioned that will likely receive some attention. These include the following topics:

1. Export prices should not be set or announced. Traders should be permitted to accept whatever bids they want to accept, but the prices and quantities sold would be reported to ALCOTEXA and average weighted prices computed and published weekly.
2. The system of grades for export cotton should be simplified.
3. Carrying charges should be negotiated by the buyer and seller instead of being fixed by ALCOTEXA.
4. ALCOTEXA fees should be reduced, particularly the per bale export fee.⁶⁸
5. Forward contracting should be permitted. This is now illegal.
6. The market should be open all year long. There should not be an opening date or a closing date for the market.
7. ALCOTEXA should play a more active role in determining the varietal map each season. This would encourage the MALR to pay more attention to export demand.
8. ALCOTEXA should focus on arbitration questions, not on price setting.

11.5 Lint Exports, 2000/01 Season

Export commitments of both ELS and LS varieties for the 2000/01 season were largely completed early in the marketing season. Although the target for ELS exports was set at 50,000 mt, commitments on 26 May were only 34,533.5 mt and as Fig. 11-2 indicates, they had nearly reached this level by early December 2000. This leveling-off occurred for two major reasons. Although, there were some exportable carryover stocks of varieties 45, 70, 76 and 77 at the start of the season, the carryover stocks of G-70 were generally not exportable (12).

⁶⁷ For a complete list of ALCOTEXA members see a recent issue of *The Egyptian Cotton Gazette*, (1, page 7).

⁶⁸ Note that a higher per bale fee is levied on UD bales pressed at gins (LE 13) than on Egyptian bales steam-pressed at Alexandria (LE 8.5). This appears to discriminate against private exporters.

The Chairman of Eastern Company reported that the carryover stocks of G-70 coming into this season were 579,000 kt. but that 446,000 kt. of this stock was not of exportable grade.⁶⁹ This left only 133,000 kt. (6,650 mt) of exportable stocks.

Total production of ELS varieties in 2000/01 was 620,000 kentars (31,000 mt) or about 4,750 mt of G-88 and 26,200 mt of G-70. CATGO reports that as of 12 March 2001 only 88 percent of the G-70 that had been ginned graded above Good+1/8. Hence, the export commitments of these two varieties during this season represent 68 percent of all of the G-88 produced and 86 percent of all of the G-70 that was produced this season, or over 100 percent of that which would grade Good+1/8. We can safely conclude that practically all of the exportable quantity of G-70 produced this season was committed for export by mid-March 2001.

In week 13 of the season (9 Dec. 2000) ALCOTEXA lowered the minimum exportable grade of G-70 from Good+3/8th down to Good+ 1/4. This change was an attempt to increase exports of the carryover stocks. However, at the same time, they raised the price by 1-2 cents /lb. These actions together did not bring any positive reaction in exports. Thus we can expect to see few additional export commitments of ELS during the season. Also, we can conclude that the export quota did not limit the exports of ELS; instead, exports of ELS during this season were limited by the available supply.

The carry-over stock of exportable LS varieties coming into this season was negligible. Production of the major export LS varieties (85, 86 and 89) totaled 127,359 mt. Export commitments of LS varieties stood at 47,746 mt in mid-March 2001, holding steady at that level for several months, having been reached by early December 2000.⁷⁰ Some sales may have been lost due to the quota, but it now appears that price is the major issue (See Figure 11-1). From the end of December 2000 to mid-February 2001, the price of US Pima declined 6-10% from its export marketing season highs. At the same time, there have been no adjustments in Egyptian export prices since week 9 (5-11 November 2000) for any variety other than a two-cent per lb. increase in the minimum and maximum prices for Giza 70 in weeks 13 and then week 22 (4-10 February). This led Egyptian cotton to no longer be price competitive. Net Egyptian sales commitments from the beginning of January 2001 through 26 May 2001 were only 1,180 mt of ELS cotton and 457 mt of LS cotton (including export type, mixed LS). Hence, we can conclude that the Egyptian cotton export season of 2000/01 was largely completed, except for actual shipments, by the end of the year 2000. In contrast, net new pima export commitments were 14,936 mt, nine times greater than Egyptian export commitments over the same period of 2001. This disparity was due entirely to the adjustment in pima prices, while Egyptian cotton prices were held constant from week 9 on for all varieties except for Giza 70.

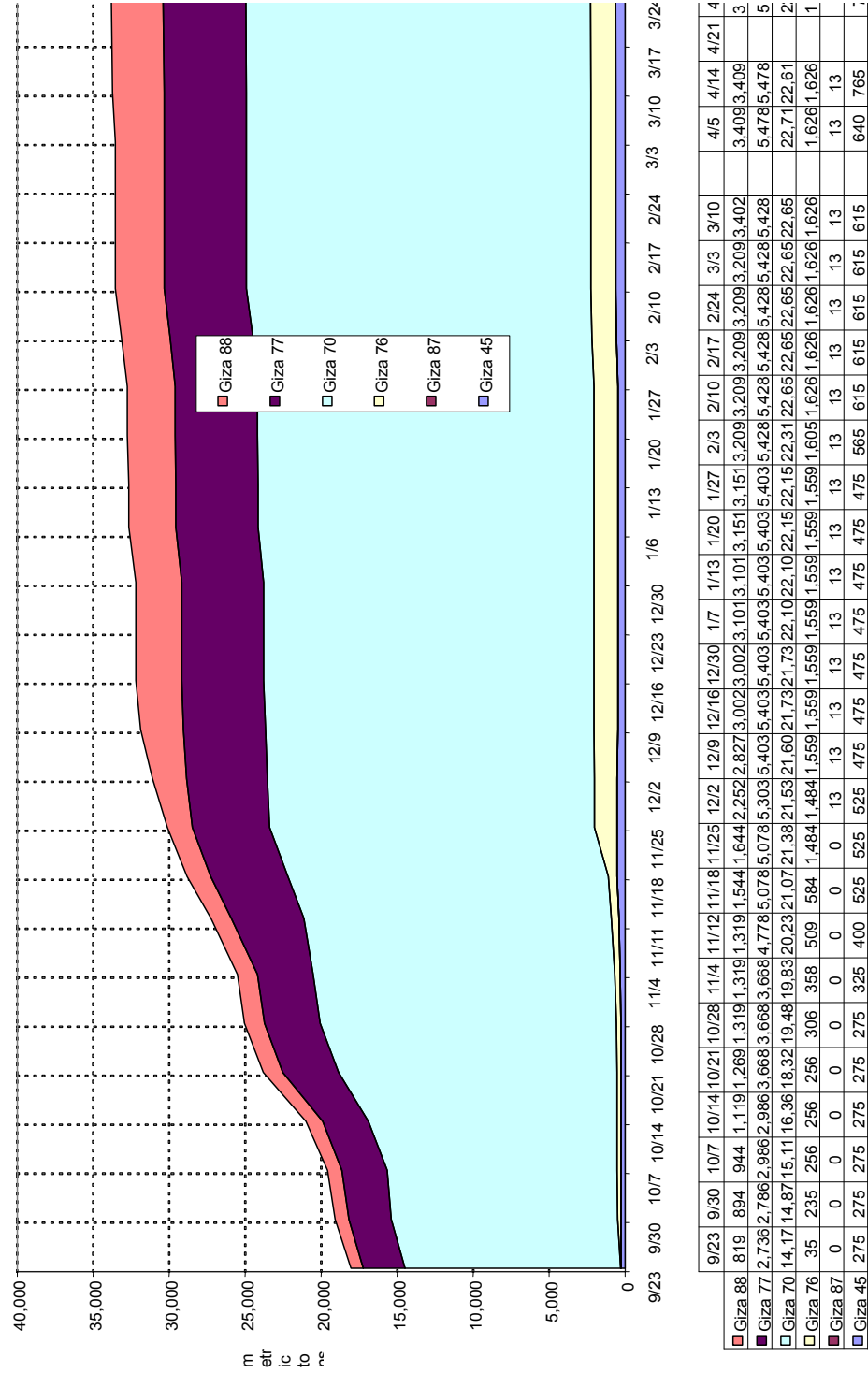
A factor favorable to cotton exports this year was a devaluation of the Egyptian currency, the pound. The seed cotton prices for 2000/01 were determined based on the export prices in U.S. cent/lb. and using an exchange rate of LE 3.47/ US \$ (see Chapter 2). During a short

⁶⁹ The bulk of the Giza 70 carried over from earlier seasons was reportedly below grade Good+1/8. Typically, Giza 70 grades below Good+3/8 have not been exported. It should be noted that lower-grade Giza 70 could be exported if prices were set low enough.

⁷⁰ By the end of May 2001, LS commitments had actually dropped 876 mt to 46,870 mt, while ELS commitments had risen by 1,012 mt to 34,554 mt. At one level, ELS commitments, principally for Giza 70, substituted for LS commitments, largely Giza 86. At another level, it is important to point out that shipments as a proportion of commitments had reached the following percentages by late May 2001: G-70, 69%; all ELS varieties, 73%; G-86, 51%; G-89, 60%; all LS varieties, 52%

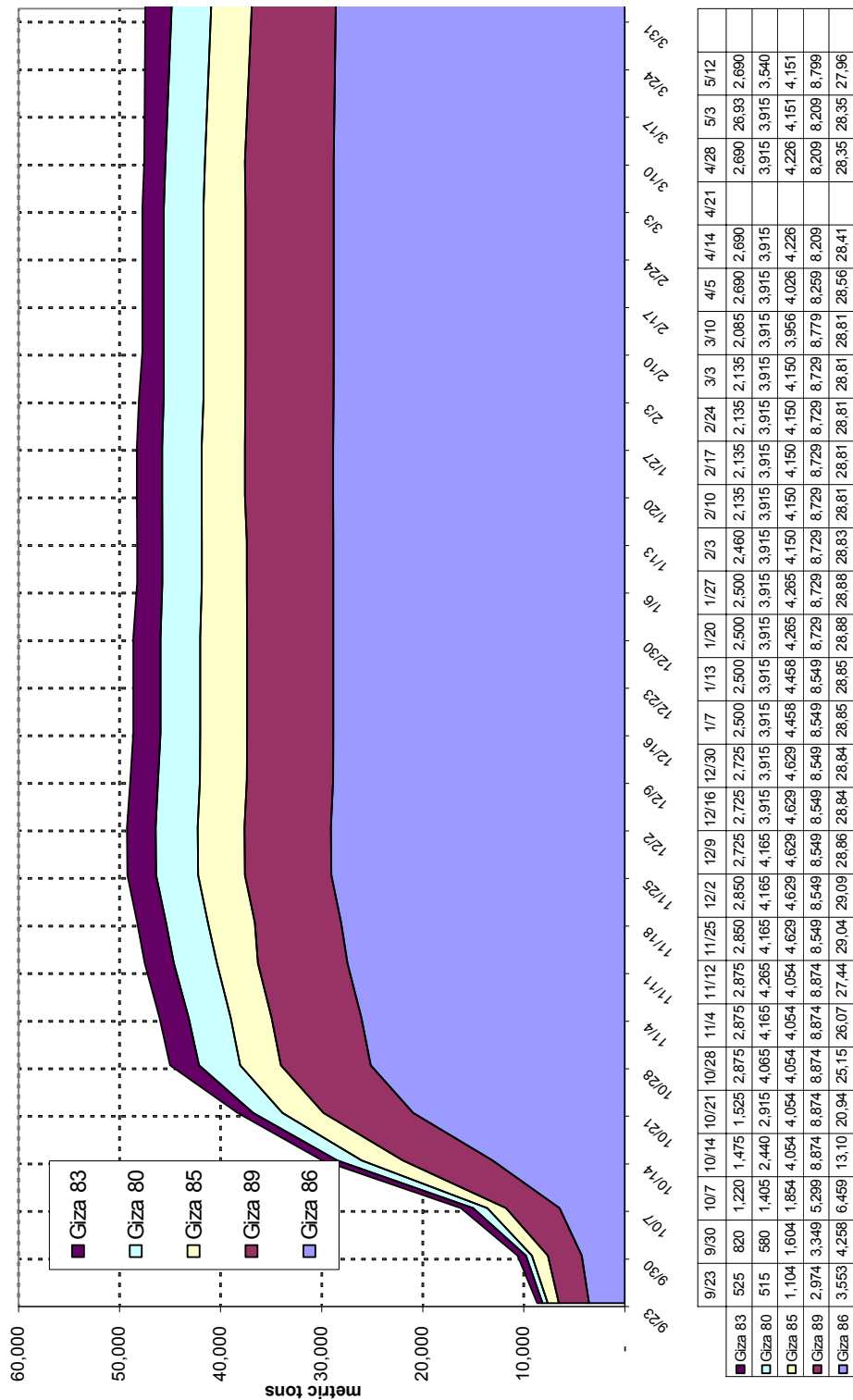
period thereafter the currency was progressively devalued to a rate of approximately LE 3.85/US\$. This 11 percent gain was not passed on to the producer but was largely captured by the exporters. This amounts to an extra incentive for large traders to export this season, in contrast to 1999/00, when sales to domestic spinners were more attractive. Presumably, and hopefully, the higher exchange rates will be used to price seed cotton next season and farmers will gain some of the benefit of this price increase.

Figure 11.2 Egyptian Export Sales Registrations of ELS Varieties, 2000/2001 Marketing Season



Source : 1) Data from ALCOTEXA and Cotton Outlook. 2) Chart developed by Edgar Ariza-Nino, APRP/RDI.

Figure 11.3 Egyptian Export Sales Registrations of LS Varieties, 2000/2001 Marketing Season



Source : 1) Data from ALCOTEXA and Cotton Outlook. 2) Chart developed by Edgar Ariza-Nino, APRP/RDI.

Another price factor working to the advantage of the trader is the rise in the price of oilseeds this season. The value of cotton seeds for crushing for oil has risen since the price of seed cotton was calculated and gives the trader a gain in value of seed of approximately LE 10/kantar of seed cotton. This provided seed cotton buyers with an added incentive to gin their cotton and sell it as lint.⁷¹ This price change probably does not give any extra incentive for exports by public companies, because public cotton trading companies had to sell the oil seeds at the fixed price of LE 72/ardeb to the public oilseed processing companies. Private traders can sell their cotton seed at higher open market prices. This gives the private sector an extra margin of profit from dealing in cotton.

11.6 Exports by the Private Sector

For the first time in about 30 years private firms were permitted to export cotton in 1995/96. The number of private firms and the share of the export market has increased since that date, although not in a steady trend (Table 11-3). The number of exporting firms and the private share of the export market declined in 1999/00 because of the late October 2000 ban on exports of Gizas 86, 85, and 89 that season by the Egyptian government.

Table 11-3: Private Sector Share of Cotton Exports, 1995/96 to 2000/01

Market Season	Number of private exporters	Private sector share of exports (%)
1995-96	4*	4.3
1996-97	5	8.8
1997-98	5	26.0
1998-99	11	27.3
1999-00	8	15.2
2000-01**	13	50.7

Sources: ALCOTEXA, Holtzman and Mostafa, 1998; Krenz and Mostafa, 2000.

* Four firms were registered to export, but it is not confirmed that they all exported lint.

** The private sector share of export commitments was 50.7% for 2000/01 as of 26 May 2001.

Profit expectations from exports surged during the 2000/01 season. Higher export prices were announced, and the shift in the exchange rate gave an added margin of profit to exporters. Hence, there was a surge in the number of firms which purchased seed cotton (see Chapters 5 and 6) and the number of firms that exported lint cotton. As of late May 2001, thirteen private firms had entered into contracts to export lint cotton during the 2000/01 season. The private sector had achieved slightly over 50% of total export commitments during the 2000/01 season.⁷² This is a major change in the export market. Actually, considering only cotton produced in 2000/01 and excluding carry-over stocks, the private sector has accounted for close to 60 percent of export commitments.

All stocks of ELS varieties G-45, 76, and 77 carried over into this season were held by public companies and hence all of the export commitments of these varieties this season were by

⁷¹ The usual incentive to gin seed cotton and sell it as lint is that the grade rises with the cleaning and ginning.

⁷² It is not clear that all the export commitments, particularly for LS varieties, will result in actual shipments. Public cotton export companies claim that a significant proportion of the export commitments obtained by private exporters will never be shipped. The fact that shipments as a proportion of commitments are low as of late May 2001 tend to support this view. If shipments indeed fall short of commitments, the private sector's share will likely slip to below 50%.

public companies (Table 11-4). All carryover stocks of G-70 were also in the hands of the public firms, which accounts for the large exports of this variety by public firms. Actually, about 28 percent of the export commitments of this season will be filled with cotton produced in prior seasons. Thus, the public sector handled the major share (72.5%) of exports (i.e., commitments) of ELS varieties, but the private sector handled the major share (70%) of exports of LS varieties. Note that when shares of actual shipments are calculated, using export shipment data, the private sector shares are lower. We will have to wait to the end of the season to obtain a precise breakdown by variety, type (ELS vs. LS), and overall.

Table 11-4: Egyptian Cotton Lint Export Commitments by Variety and Private Sector Versus Public Sector, 2000-01 Season

(mt)				
Variety	Private Firms	Public Firms	Total	Percent Private
Giza 45	0	765.0	765.0	0
Giza 87	0	13.0	13.0	0
Giza 76	0	1,626.0	1,626.0	0
Giza 70	9,001.0	14,114.5	23,115.5	38.9
Giza 77	0	5,570.0	5,570.0	0
Giza 88	490.0	2,974.0	3,464.0	14.1
Total ELS	9,491.0	25,062.5	34,553.5	27.5
Giza 86	19,578.5	8,387.0	27,965.5	70.0
Giza 89	6,255.0	2,768.5	9,023.5	69.3
Giza 85	2,875.5	1,278.5	4,151.0	69.2
Giza 80	2,110.0	1,440.0	3,540.0	59.3
Giza 83	1,880.0	310.0	2,190.0	85.8
Total LS	32,686.0	14,184.0	46,870.0	69.7
Type Exportateur	0	1,687.0	1,687.0	0
Grand Total	42,177.0	40,933.5	83,110.5	50.7

Source: ALCOTEXA, export commitments as of 26 May 2001.

Within the private sector one firm, Modern Nile, stands out as the predominant leader, with nearly half of the private export market. The next five firms together have nearly the same total volume of exports as Modern Nile, and the remaining seven firms together have only 5.3 percent of the private export market.

Table 11-5: Market Shares of Private Exporters, 2000-01

Private Exporter	MT	% Private Exports	Percent of Total Exports
Modern Nile	20,223	47.9	21.3
Nassco	6,840	16.2	8.2
T. Harb	3,814	9.0	4.6
Mabrouk	3,500	8.3	4.2
Tanta	3,225	7.6	3.9
Al-Watany	2,325	5.5	2.8
ATICOT	800	1.9	1.0
Benha	566	1.3	0.7
Nile Ginning	375	0.9	0.5
Abo-Madawy	275	0.7	0.3
EDCO	100	0.2	0.1
El-Sayedco	84	0.2	0.1
International	50	0.1	0.06
Total	42,177	100.0	50.7

Source: ALCOTEXA, export commitments as of 26 May 2001.

11.7 Carry-over Stocks

Carry-over stocks into the 2001/02 year cannot be estimated until we know more about domestic use and imports during this 2000/01 season. However we know that sizeable carry-over of stocks owned by public companies from prior years still remain. As stated above, most of these stocks are of ELS varieties. A report from CATGO dated 24 February 2001 shows carryover stocks from prior years were 40,611 kt. of G-45, 24,826 kt. of G-76, and 70,154 kt. of G-77. These varieties were not grown in 2000/01 so these stocks were clearly carried over from prior years. This report also listed stocks on that date of G-70 of 423,188 kt. How much of this is also carry-over from prior years? We estimate that most of the export commitments of G-70 for this season will be filled with current production with only 40,000 kt coming from carry-over stocks. Some of these carry-over stocks of G-70 have been taken by domestic spinners so that practically all of the current total stocks of G-70 of 423,000 kt. are carry-over stocks from prior years. Thus, total carry-over stocks of ELS from prior years is still about 558,800 kt. (27,940 mt).

We stated above that 446,000 kt of these G-70 carry-over stocks were estimated to be not of exportable grade. The current plan by the Government is to use these stocks for local use. It has been reported that those stocks of G-70 which grade below a grade of Good will be sold to the local spinners at the same price as G-80 and G-70 stocks which grade Good or above, (but below Good+1/4) will be sold at the price of G-85.

11.8 Privatization of the Public Export Trading Companies

No privatization of the six public trading and exporting companies has yet occurred, but their market shares of seed and lint cotton dropped considerably this season.⁷³ Solutions to the debt and labor problems of these companies are needed before these companies can be sold. Several public officials indicated two years ago that the MPE planned to privatize all six

⁷³ See Section 7.9 page 63, 14.

companies by the end of the year 2000, but all six companies existed as of June 2001 and expected to operate again in 2001/02.

There are rumors that the six companies will be combined into three companies. However, the Chairman of the Holding Company now responsible for all cotton activities by public companies reported only the following: "The long run policy of the government is to privatize all of these companies, but there are no specific immediate plans to merge the public trading companies or the gins. A privatization plan is now being studied." This has been the GOE position for several years; there has been no progress in privatizing public sector cotton trading or ginning companies since the beginning of APRP.

The trading companies essentially have no tangible assets to sell. They have only employees, rented office space and debt. The MPE should combine two or more companies into one company, write off their debt, and devise some system of early retirement for the excess employees to down-size these companies as rapidly as possible. Alternatively, the MPE could close the companies, put as many of the staff on early retirement as possible, and transfer the remaining employees to other public companies or to the HC.

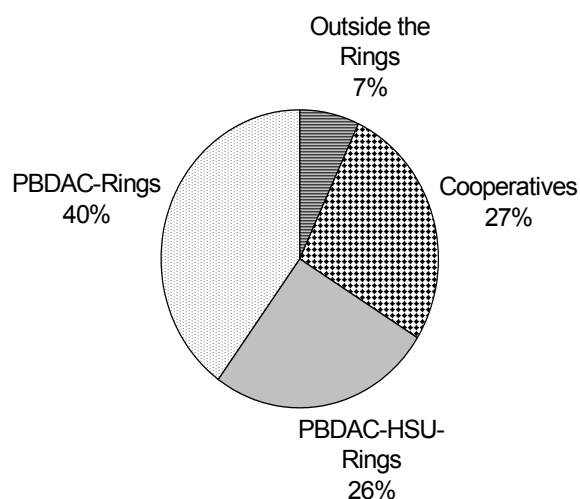
12. MARKET SHARES FOR TRADE IN SEED AND LINT COTTON

This chapter presents a summary of the movement of seed and lint cotton through the various market channels during the 2000/01 season. More details can be found in Chapters III-XI.

12.1 Sales of Seed Cotton by Producers, 2000/01 Season

Figure 12-1 shows the shares of seed cotton sold through different venues by producers in the 2000/01 season. In that season producers sold 66.2 percent of their cotton at the PBDAC sales rings or collection centers, 27.0 percent was marketed through the co-op societies, and 6.8 percent was sold directly to traders or brokers individually or at private sales rings, but outside of these official rings. Sales at the PBDAC rings include the sales to HSU by those farmers of cotton produced under seed contracts. These seed sales to HSU represented 26.2 percent of the total seed cotton crop and 40 percent of the seed cotton delivered to the PBDAC sales rings. Never before had one public agency played such a dominant role in buying seed cotton.

Figure 12-1: Seed Cotton Sales by Venue, 2000/01



Data on the share of the national seed cotton crop handed by these three major markets in recent years, since privatization was initiated in 1994/95, is provided in Table 12-1. The share taken by the co-ops has risen during the last two years. Private traders purchased a larger share of the crop in 2000/01. No doubt part of this change was a protest action against the methods used in allocating the PBDAC rings this season.

Table 12-1: Summary of Data on Market Channels for Seed Cotton Marketing and Ginning since Market Liberalization (1994/95 to 2000/01)

(Percentages)

Market Channels	94/95	95/96	96/97	97/98	98/99	99/00	00/01
Direct from Farmers							
Traders-brokers	15	79	8*		6	4	7
Co-ops	85	17	2		16	27	27
Other (EMEPAC)					3		
PBDAC Rings	0	4	97.6	100	75	69	66
HSU							26
All other							40
Delivered to the Gins							
Public Trading Cos.	54.8	34.0	85.1	83.5	64	47.6	29.2
Public Ginning Cos.	8.0	6.8	14.9	9.2	8	3.9	3.9
Public S & W Cos.						2.8	3.7
Private Trading & Ginning Cos.	38.2	58.2	---	6.5	28	44.5	35.1
Private S & W Co.						1.2	1.9
HSU							26.2
<i>Dawalib</i>	---	1.0	---	---	---	---	---
Ginning							
Public	74.4	75.0	75.6	64.9	60.4	63.3	58.4
Privately owned & leased	25.6	25.0	24.4	35.1	39.6	36.7	41.6

Sources: (9,13,15) Note: * Private traders sold 7.8% at PBDAC rings.

12.2 Second Round of Seed Cotton Marketing

The bulk of the seed cotton sold at the PBDAC sale rings went to public firms (80%) with a small share (20%) going to private traders (Table 12-2). This division was the result of the large share of the seed cotton sold at PBDAC rings which were allocated to the HSU (40%) (see Figure 12-2). The private sector bought 23 percent of the entire seed cotton crop at the PBDAC rings last season.

The co-operatives have been shifting their seed cotton sales more to the private sector. Two years ago the co-ops sold 48 percent of their cotton to private firms; last year their sales to private firms were 58 percent, and this season their share was 64 percent.

All private firms, including the large private exporters, the smaller private trading firms and the private spinning and weaving companies purchased 36 percent of the seed cotton this season and the public firms including HSU, received 64 percent. The private share of the seed cotton crop declined from 45.7 percent last season. The major cause of this shift was the entry of HSU into the seed cotton market. This public agency purchased 26.2 percent of the seed cotton this season, an unprecedented large volume for anyone entity, especially one that have never bought a single kentar before the 2000/01 marketing season began.

Figure 12-2: Seed Cotton Sales at PBDAC Rings, by Buyer Type

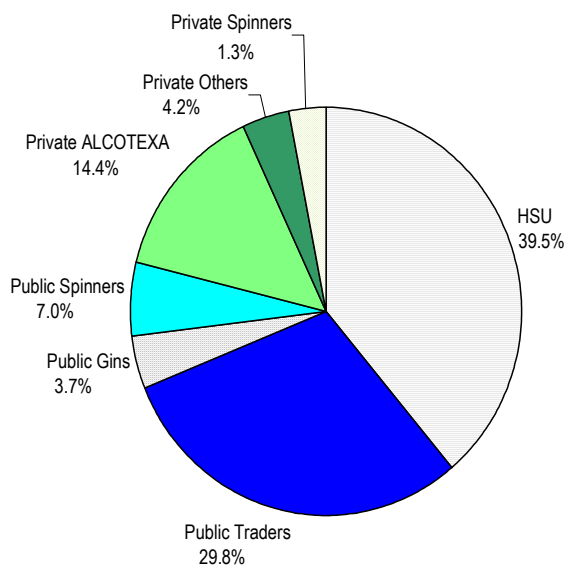
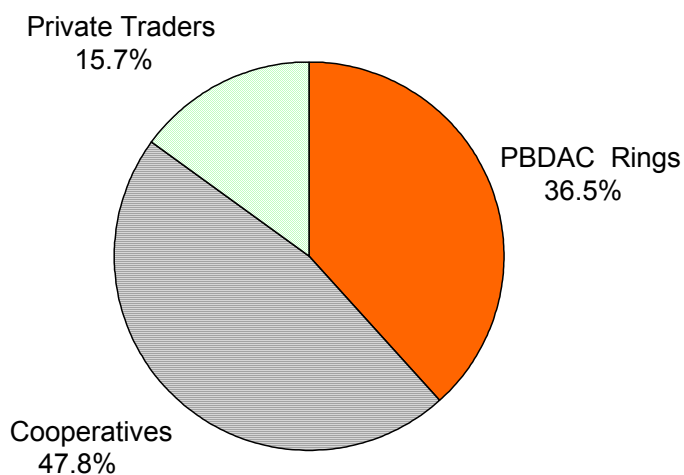


Figure 12-3: Private Sector Sources of Seed Cotton

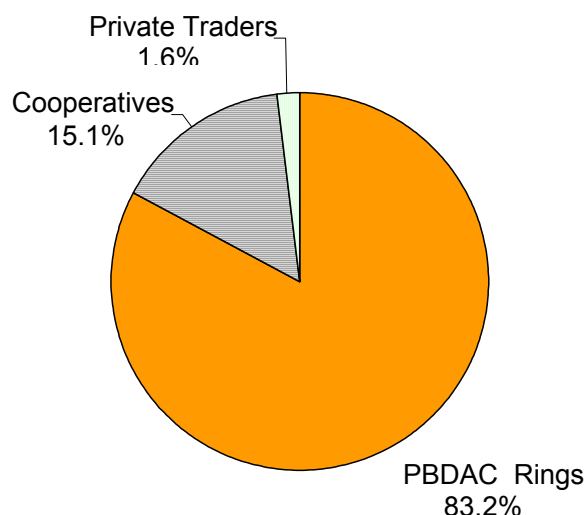


It is estimated that the HSU obtained approximately 1,084,000 kt. of lint cotton from the seed cotton it purchased.⁷⁴ Of this total lint cotton the HSU sold 177,000 kt. to private companies (16.3%) and the balance of 907,000 kt. (83.7%) to the six public trading companies.

⁷⁴ Based on the average ginning outturn of 119 %.

The seed cotton market is summarized by major sources and between the public and private sectors on a percentage basis in Table 12-2. Co-ops were the major source of seed cotton for

Figure 12-4: Public Sector Sources of Seed Cotton



the private firms, whereas the PBDAC rings were the major source for the public firms (see figures 12-3 and 12-4).

The public sector clearly dominated the ELS market for seed cotton (Table 12-3). Because it is a new variety with a small supply of seed available, almost all of the G-88 grown was under contract for planting seed production and hence was sold to HSU. Also, 70 percent of the G-70 seed cotton was sold to HSU for seed. It is not clear why such a large share of this variety should be allocated for seed production. Hence, the private sector had access to a very small portion of the ELS production.

Table 12-2: Summary of Seed Cotton Market, 2000/01 Season

Purchasing Point	Private Firms	Public Firms	Total
(seed kentars)			
PBDAC rings	458,956	1,845,307	2,304,263
Co-ops	601,283	335,194	936,477
Other	197,632	35,320	232,952
Total	1,257,871	2,215,821	3,473,692
(percent of totals)			
PBDAC rings	36.5	83.2	66.3
Co-ops	47.8	15.1	27.0
Other	15.7	1.6	6.7
Total	100.0	100.0	100.0
Share of crop	36.2	63.8	--

Sources: PBDAC, cooperatives, CATGO.

Table 12-3: Private and Public Sector Shares of Seed Cotton Delivered to the Gins, by Variety, in 2000/01

(in %)		
Variety	Private Sector	Public sector
Giza 70	35.2	64.8
Giza 88	0.6	99.4
Giza 86	45.1	54.9
Giza 89	39.5	60.5
Giza 85	36.5	63.5
Giza 80	25.4	74.6
Giza 83	31.0	69.0
Total	36.2	63.8

Source: CATGO, March 2002.

12.3 Financing of Seed Cotton Purchases

The financing of the seed cotton marketing process was not investigated in this study but a few comments seem warranted. The seed cotton market is a capital intensive market. The value of the 2000/01 seed cotton crop was about LE 1.4 billion, meaning that a lot of working capital was needed to buy the crop. A private trader with LE 10 million could buy only 25,000 kt. or only 7/10^{ths} of one percent of the crop. Some of the larger private traders reported that they had provided financing for the smaller private traders who were buying seed cotton for them. Those companies who purchased seed cotton from the Land Reclamation Co-ops paid 50 percent advance payments to the co-op. The size and number of the private sector firms in the seed cotton market this season were determined by two major forces. On the one hand, there was the set of regulations regarding the allocation of the PBDAC seed cotton rings, which favored the strategy of many small firms this year. On the other hand, the capital requirements of this market are very large. The industry found a solution to these two problems by using a strategy of the small firms combining with and being financed by the larger firms. This arrangement worked well and to the advantage of both groups.

Financing of cotton purchases appears to be a problem for the co-operatives. The LR co-ops asked for 50 percent advance payments from their clients, public and private trading companies. It is difficult to comprehend where the producer co-ops could possibly have obtained financing for all of the contracts they had at the start of the season except from their clients.

12.4 Ginning

Seed cotton does not change ownership when it is ginned. The three public ginning companies ginned 58.4 percent of the seed cotton and the two private companies (excluding Nefertiti) ginned 41.6 percent (Table 12-1). Because of the one-variety-per-gin rule, some cotton owned by private companies was ginned in public gins and some cotton owned by the public companies was ginned in private gins. Most but not all cotton is ginned in the gin that is closest to where the cotton was produced. Data were not available this season on the shares of seed cotton ginned in public versus private gins classified on the basis of ownership of the seed cotton. However, the one-variety-per-gin rule precludes much shifting of seed cotton

between gins, hence the split was probably about 58.5% to 41.5% regardless of the ownership of the cotton.

12.5 Trading of Lint

Trading of lint cotton between traders was considerably greater this season than in previous seasons. In recent years seed cotton which had been purchased by the public ginning companies was sold as lint cotton mostly to domestic spinners, but some was also sold to public trading companies for export. Also, for years, even before privatization and market liberalization began, the public trading firms would exchange, swap, or sell lint cotton to each other as needed to fill their export contracts. This is, however, a minor part of the total cotton market and certainly continued this season.

This season there were additional reasons for lint trading between traders. The biggest reason was the purchase by the HSU of 26 percent of the seed cotton. This company has no export license and has no expertise in cotton merchandising. To the best of our knowledge, HSU sold all of its cotton as lint cotton to other traders.⁷⁵ Our information is that HSU sold 177,000 kt. of lint to two private exporting firms (Modern Nile and Tanta) and the balance (907,000 kt.) to the six public exporting firms. Other private firms were invited by HSU to purchase these stocks but declined because of the large price premiums, (reported as LE 17/kt.) demanded by HSU.

In addition, El Mabrouk Company sold 27,500 kt. of lint cotton to three other private firms and one public trader. This was sold to secure needed cash. Modern Nile reported that it bought a total of 226,000 lint kt, 160,000 from HSU and the balance from a large number of small private firms.

No doubt other lint sales occurred, particularly to meet export contracts. No attempt was made to document all of these trades of lint. We see little to gain from such efforts. These actions promote competition and free trade and pose no disadvantages to the industry. They illustrate the growing complexity of the domestic cotton trade.

Before these lint trades, the private sector held 1.32 million seed kentars, (1.53 million lint kentars) or 37 percent of the cotton crop. After these lint trades the private sector had possession, for sale to domestic users or for export, of an estimated total of 1.71 million lint kentars (mlk), or 41 percent of the total crop.

Of these 1.71 mlk of lint cotton, the private sector firms will export 0.84 mlk and deliver the remaining 0.87 mlk to domestic spinning companies. Thus, when including the private spinners, who bought seed cotton for their own use, the private sector sold 49 percent of its lint cotton to domestic spinners and 51 percent was exported.

12.6 Summary of Market Channels

Figure 12-5 gives a schematic presentation of a simplified seed and lint cotton market for the 2000/01 season. All data entries in this sketch are in terms of million kentars, with seed kentars in the upper portion and lint kentars in the lower portion. This diagram clearly illustrates the growing complexity of the cotton market.

⁷⁵ HSU did not grant interviews to the study team, nor did it provide detailed information about its operations.

At the top of the diagram we show the cotton producers who produced and sold 3.47 million seed kentars this season, including 66 percent through the PBDAC rings, 27 percent through the co-operatives, and 7 percent through private buyers who were buying at their own sales rings or directly from producers.

The next round of transactions includes 15 private traders who are members of ALCOTEXA (i.e. exporters), another group of 29 smaller private traders, the six public trading and three public ginning companies, ten spinning and weaving companies, and the HSU.

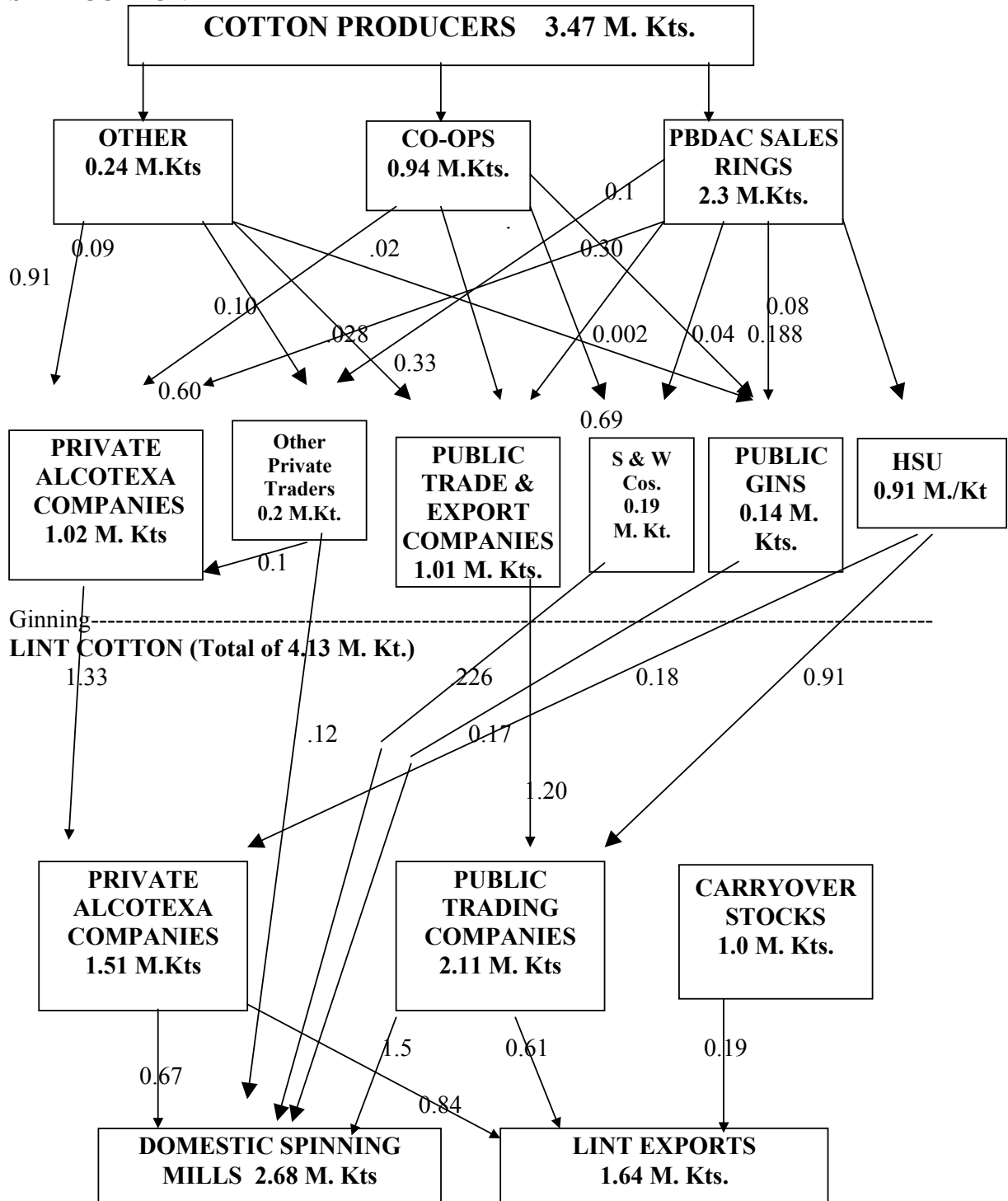
The third step in the marketing chain is the delivery of the seed cotton to the gins. However, deliveries to the gins do not involve a change in ownership, only a physical movement.

Quantitative estimates in the lower portion of this figure are measured in lint kentars. It is estimated that at least 190,000 kt. (9,500 mt) of exports this season came from carryover stocks. All exports of G-45, 76, and 77 came from these stocks. We here assume that 2,000 mt of the 22,650 mt of exports of G-70 also came from carryover stocks and the balance from 2000/01 production.

Figure 12-5 shows that an estimated 190,000 kt. (9,500 mt) of total exports this season was taken from carryover stocks with the remaining 1,450,000 kt. (72,500 mt) coming from production in the 2000/01 season. Of this amount, 840,000 kt. (42,000 mt) was exported by private traders and 610,000 kt. (30,500 mt) was exported by public sector firms. Thus, considering only exports from year 2000 production, exports by the private sector represented 58 percent and the public sector share was 42 percent.

Figure 12-5: Estimated Market Channels for Seed and Lint Cotton, 2000/01
(kentars of seed and lint cotton)

SEED COTTON



13. RECOMMENDATIONS

This chapter summarizes important findings from the report and makes policy recommendations for improving the cotton marketing system in 2001/02 and beyond. CSPP and MVE offer the policy recommendations in the spirit of improving the efficiency, competitiveness and transparency of the seed cotton marketing system in Egypt.

13.1 Main Findings

In 2000/01 the cotton subsector season saw several major changes in cotton marketing procedures. While there were some further steps toward liberalization, there were also some initial, early season steps backward, away from a competitive system, that were rectified by ministerial adjustments several weeks into the season.

13.1.1 Context for the 2000/01 Marketing Season

In 2000, only 518,000 feddans were planted to cotton, primarily due to the low cotton prices in recent years. While lint cotton shortages, particularly for long-staple varieties, were widely anticipated, domestic utilization of Egyptian lint cotton had fallen to only 2.9 million lint kentars in 1999/2000, the lowest level in 36 years, and was expected to remain relatively low in 2000/01. So the shortage may end up being partly more perceived than real. Yields and out-turn ratios were higher than originally expected, leading to a higher lint cotton output than anticipated. Imports of 575,000 lint kentars (by late April 2001) also increased supply. If domestic utilization is low, and uncommitted stocks of Giza 70 and most LS varieties remain high (as they were by the end of April 2001), the perception of shortage may change to significant actual carryover into 2001/02.

The perception of shortage did affect, however, export levels. Early in the cotton marketing season the Ministerial Committee for Cotton agreed to export limits of 50,000 mt for ELS varieties and the same for LS varieties for a total of 100,000 mt. Note that export shipments during 1998/99 and 1999/2000 reached 100,000 mt. This level of commitments to exports is a positive sign that the GOE is serious about maintaining foreign market shares for fine cotton. Limiting exports of particular varieties is, however, an undesirable artifact of a command and control economy. Exports of LS varieties, particularly by private traders, could have been greater in 2000/01. Foreign buyers try to cover their needs early in the marketing season; limits on exports of Egyptian lint (or rumors about limits) would force them to look elsewhere.

13.1.2 Increased Authority of the Supervisory Committee and Changes in Allocation of PBDAC Rings from 1999/00

Allocation of the PBDAC seed cotton sales rings was a highly controversial issue during the 2000/01 season. In late August 2000, at the time of allocation of the rings, the expected production was only 3.7 million kentars of lint. Lint output ended up being 4.198 mlk. due to high yields and ginning out-turn.

While the Ministerial Decree 1030 of August 2000 read much like prior years, *a major change from prior years was that the Supervisory Committee unilaterally allocated the rings rather than the CIT-HC in consultation with the Domestic Cotton Traders' Committee.* The

allocation procedures were somewhat vague, and 28 percent of the PBDAC rings were assigned to the Horticultural Services Unit (HSU) on the basis that these rings were all producing planting seed for next season.⁷⁶ HSU actually received 39.5 percent of the cotton delivered to all PBDAC rings, during its first year of participation in cotton marketing. In addition, the Supervisory Committee attempted to impose a quota on each trader, expressed in seed kentars, which was intended to be applied to total purchases of seed cotton, both from the PBDAC rings and through co-operatives. The Supervisory Committee also discouraged traders from buying outside the PBDAC rings, early in the cotton marketing season, by threatening that CATGO would not grade seed cotton bought outside the rings and such seed cotton could not be ginned.

The implementation decisions of the Supervisory Committee unleashed a vehement private sector protest of favoritism, arbitrariness, and unfairness resulting in many faxes and appeals to the relevant ministers and officials during late August and early September 2000. A result was that Ministers Wally of MALR and Ghaly of MEFT issued a press release on 26 September 2000 that anyone interested in participating in seed cotton marketing could do so. This press release was a major reversal of the power of the SC. It reflected the rising power of the private sector traders as a lobbying group with political clout.

The 808 PBDAC rings were initially allocated among a total of 64 companies, including 17 public companies and 47 private companies or individual traders. By the end of the season, 62 companies had collected seed cotton at 810 PBDAC rings; the number of private sector buyers had dropped to 45 companies. This number of participants far exceeds the number of firms buying seed cotton at PBDAC rings in previous years. A negative consequence of the short cotton crop and the broader participation was that many traders with experience and capacity received fewer rings than they requested and that were needed to operate efficiently and at appropriate scale.

13.1.3 Purchases by Cooperatives

Farmers under the supervision of the Agrarian Reform and the Land Reclamation Cooperative Societies were only indirectly part of the Optional Marketing System established by Decree 1030. The seed cotton collected by these cooperative societies, 23 percent of the crop, was assembled through a separate and distinct channel. If registered traders with rings bought any seed cotton purchased by the cooperatives, however, the purchased quantities would be subtracted from their quota shares, set by the Supervisory Committee, that corresponded to anticipated deliveries of seed cotton by farmers to the PBDAC sales rings they were allocated. In other words, not all the seed cotton these traders purchased would be eligible for deficiency payments, and the Supervisory Committee threatened that any seed cotton delivered to the gins, above and beyond their quota, would not be graded or allowed to be ginned.

Cotton producers' marketing cooperatives, represented by a national umbrella organization, reached an agreement in late July 2000 with five major buyers, including four private exporters and the HC, to buy over 1.7 million seed kentars. The private companies

⁷⁶ The HSU was allocated PBDAC rings covering an area of 109,222 feddans. The national average yield was 6.7 seed kentars per feddan. Each seed kantar yields roughly 100 kg of seed, or about 83% of an ardeb of seed. So the expected output of seed from the area covered by HSU rings was 670 kg. * 109,222 feddans or 73,179 mt. This is enough seed, planted at a seeding rate of 25 kg./feddan, to cover over 2.9 million feddans in 2001/02. By anyone's standards, this amount far exceeds what was required. Since about 750,000 feddans were planted to cotton in the spring of 2001, HSU obtained four times as much seed as required for planting.

abandoned these agreements after the SC announced the rules for allocation of rings and the quota system governing purchasing of the seed cotton crop. Nevertheless, the producer marketing cooperatives ended up buying 290,000 sk.

13.1.4 Operation of the Optional Cotton Marketing System and Alternative Channels

The general operating rules of the PBDAC sales rings were similar in 2000/01 to previous years. Each ring was assigned to one company only with no competitive bidding allowed within the sales ring. Seed cotton buyers at these rings had to be registered traders, and they had to agree to purchase all of the seed cotton delivered, regardless of grade or time of delivery. They also used the official price tables to determine prices paid to farmers. The grower was paid 80 percent of the estimated value upon the date of the cotton weighing and the balance after it had been graded and ginning outturn tests had been performed.

Egyptian cotton producers were permitted to sell their seed cotton to whomever would make them an offer. Some private cotton traders established their own sales rings where producers could bring their cotton for sale. Private traders and brokers bought cotton directly from farmers in some areas. Various co-operatives also bought cotton from their members.

The private sector purchased 36 percent of the seed cotton this season and the public firms, including HSU, received 64 percent. Trading of lint cotton between traders was considerably greater this season than in previous seasons. HSU sold all of its cotton as lint cotton to other traders. The private sector sold 49 percent of its lint cotton to domestic spinners and exported 51 percent.

13.1.5 Cotton Pricing

After several years of declining world cotton prices, international cotton prices rebounded during 2000, and ALCOTEXA responded by raising the 2000/01 season opening prices for exports by 10-14 cents per lb. The exact amount of increase in export prices over last season varied, since a new pricing scheme was introduced that involved a price range instead of a single price for each grade and variety. The price range concept was proposed by Minister Youssef Boutros Ghaly of MEFT and accepted in a meeting with the ALCOTEXA Management Committee on 12 September 2000. The concept was designed to give buyers some flexibility in submission of bids and to provide a method of detecting an increase or decline in demand.

Seed cotton prices paid to producers at PBDAC rings were determined by the GOE and based on the season-opening lint export prices. CATGO and the Holding Company for Spinning, Weaving and Ready-Made Clothes (HC-SWRMC) provided tables of seed cotton prices by grade and out-turn ratio in consultation with the Cotton Marketing Supervisory Committee. The export price of lint was converted to Egyptian Pounds at the early-season official exchange rate (LE 3.47/USD) and adjustments were made for marketing costs and the value of by-products to arrive at producer prices.

On 25 September 2000 the High Council for Cotton decided to make a further increase in the seed cotton prices for Giza 85, 86 and 89 of LE 10/kt. This raised the cost of lint to traders and domestic spinners. Prior to this date, there had been some discussion within the Government of a deficiency payment to producers. But with this price increase the discussion of a subsidy to farmers was dropped and eventually the funds set aside for that purpose were used to subsidize domestic spinners' purchases of lint.

13.1.6 Producer Marketing Behavior

A MALR/CSPP survey of 500 cotton producers in six governorates showed that 7/8^{ths} of the farms producing cotton are small farms that cultivated less than two feddans. Almost all farmers learned about prices of cotton only at harvest time or when they sold their cotton, most frequently from cotton buyers. Traders and farmers considered the official price tables as the minimum guaranteed prices.

Farmers waited an average of 20 days to receive full payment on cotton sold at the PBDAC rings, whereas farmers selling outside rings received immediate payment. Producers selling outside PBDAC rings received higher prices. Farmers who sold at PBDAC rings did so mainly because they knew they would get paid the official price and they felt that the weighing and grading would be accurate. This implies that some farmers do not trust traders who buy outside sales rings.

13.1.7 Cooperative and Private Trader Purchases of Seed Cotton

The Agrarian Reform and Land Reclamation Cooperatives are primary cooperatives that collected 646,079 seed kentars from their own producers, or 18.6 percent of the seed cotton crop. These cooperatives supplied 52 percent of their seed cotton to public sector trading companies at average prices that were LE 6.80/kt. higher than the prices listed in the official price tables.

Cotton Producers' Marketing Cooperatives collected 290,398 seed kentars (8.4 percent of the crop) and sold the entire quantity to large private trading companies. Note that the Cotton Producers' Marketing Cooperatives operated differently from the two primary cooperatives. They set up collection centers in competition with PBDAC sales rings in order to buy seed cotton from producers. They did not have captive producer sellers, as did the Agrarian Reform and Land Reclamation Co-ops, but competed with the PBDAC-run sales rings and outside the sales rings with private traders.

Private registered trader purchases outside the PBDAC sales rings reached an estimated 197,632 seed kentars, or 5.7 percent of the estimated seed cotton crop. Non-registered traders also bought seed cotton outside the rings, some of which was sold to public sector buyers who delivered it to the rings. Unlike the cooperatives, who delivered all their cotton as seed cotton to buyers, many traders ginned their seed cotton and sold lint to larger private traders and to public and private spinners. They increased their returns by selling cottonseed to oilseed processors, typically at a substantial premium (of LE 10-15/ardeb) over the official prices, and by selling lint cotton, which typically has a higher grade than the same seed cotton before ginning.

Some of the private trading companies that delivered seed cotton to the gins purchased some cotton outside the rings. This method of buying includes the operation of private sales rings, buying from registered or non-registered traders, and in some cases direct purchases from producers.

13.1.8 Utilization of the 2000 Cotton Crop and Imports

As of late May 2001, six public companies and thirteen private firms had entered into contracts to export 81,424 mt of ELS and LS lint cotton during the 2000/01 season (and 1,687 mt of export type mixed lint). This level of commitments is below export shipment levels of

the past two seasons, but it represents a higher proportion of the cotton crop than in any other year during the 1990s. The private sector had achieved 50.7 percent of total export commitments during the 2000/01 season by late May 2001. The public sector had received commitments to export the major share (72.5%) of ELS varieties, while the private sector had obtained commitments to export 70% of the LS lint. While there is considerable doubt that all the private sector commitments will translate into actual shipments, the private sector clearly dominated LS cotton exports.

Domestic utilization of Egyptian cotton will likely be less than 3.0 mlk in 2000/01, as domestic spinners continue to struggle with the problems that plagued them during the second half of the 1990s. The better-performing public spinners, the two joint investment companies, and the privatized spinners have been able to finance lint cotton purchases and operate at earlier-year levels. The worse-performing public spinners and small open-end spinners are operating at lower levels of capacity utilization, even though public spinners are receiving subsidies on the Egyptian lint they buy. Note, however, that spinners complain that the cheaper Egyptian varieties, Giza 80/83, are unavailable in desired quantities, so public spinners have bought Syrian and, in a few cases, Sudanese lint to keep some of their capacity operating, producing low- and medium- count yarns. It is also reported that significant old Giza 70 stocks of non-exportable grades, held by the public sector cotton trading companies, are being sold to domestic spinners at discounted prices.

The short crop and large export commitments of the 2000/01 season led the Holding Company to call for international tenders for lint imports twice in late 2000. An attractive bid for supplying 15,000 mt of Greek lint never became a consummated deal, as the HC asked for payment facilities and was rejected. The HC later concluded a deal for 20,000 mt of Syrian lint with the Syrian Government. Imports of Sudanese acala appear to be less than 10,000 mt, while Misr Amriya directly imported 5,000 mt of Greek lint early in the marketing season.

13.2 Policy Recommendations

13.2.1 Making Varietal Choice More Market Driven

Although this report did not focus on this issue, we recommend that the private sector be given a major role in determining the cotton varietal map. MALR officials, mainly CRI managers, make the varietal decisions in consultation with other MALR specialists (in seed, plant pathology) and with the Holding Company. Input from private cotton traders, exporters and spinners appears to be nominal, if it is even solicited at all. Ideally, representatives of the private sector need to sit on any committees that make varietal decisions, rather than providing limited and informal input only when asked. Some private cotton traders, exporters and spinners have complained that some varietal decisions in the past, such as the decision to cancel Giza 75 abruptly, were made without consulting them and without recognizing strong international demand for particular varieties.

It is also recommended that the MALR reduce the number of varieties under commercial production to a maximum of five varieties. Progress has been made since 1998/99, when ten varieties were cultivated; seven varieties were grown in 2000/01. Consideration should be given to further reduction to only three or four varieties. The variety map should be more closely keyed to market demands. One ELS variety and one LS variety will satisfy export demand, while one or two LS varieties can meet domestic spinners' requirements. Reduction in the number of varieties will also improve competition at the ginning level.

13.2.2 Formalization of Private Sector Input into the Inter-Ministerial Decree and Composition of the Supervisory Committee

APRP/RDI is working closely with a representative group of private sector and cooperative seed cotton buyers to prepare input into formulation of the joint Inter-Ministerial Decree for the 2001/02 cotton marketing season. This is a needed and welcome initiative, reflecting the increased interest and voice of the private sector in helping to set the rules and regulations governing seed cotton buying and selling. The GOE is strongly encouraged to take this initiative seriously, to engage in a constructive dialogue with private traders and cooperatives, and to incorporate many of their proposals into the 2001/02 decree.

The GOE should require that the private sector have equal representation on the Supervisory Committee. This would be a responsible way to respond to widespread criticism of the arbitrary actions and rules, which discriminated against the private sector, of the Supervisory Committee in 2000/01. In 2000/01, the Chairman of the Supervisory Committee selected only two private sector representatives.⁷⁷ An equal representation provision needs to be spelled out explicitly in the decree for the optional cotton marketing system. The private sector should choose its representatives, not the SC, PBDAC, or any Ministry. ALCOTEXA, the Domestic Cotton Marketing Committee, and the Cotton Producers' Marketing Cooperatives would select their own representatives to the Supervisory Committee. One formula might be to have ALCOTEXA choose 40% of the private sector seats, the Domestic Cotton Marketing Committee select 40%, and the coops choose 20%.

13.2.3 Seed Cotton Sales Rings

More competition in seed cotton marketing is needed at the farm level. Many farmers who sold outside of PBDAC rings received higher prices than those who sold at the PBDAC rings. Seed cotton sales rings should not be allocated to any cotton trading companies or to any government agencies on the basis of previous years' trading volumes. This discriminates against new entrants.

One way to assign sales rings is to auction them to traders. Traders could bid the value that they guarantee to pay farmers per kantar of seed cotton, over and above the base official prices, with each ring going to the highest bidder.

Competition can also be enhanced by encouraging more private sales rings. The GOE should officially permit private sector firms to establish their own private collection centers or rings with grading services provided by CATGO on the same basis as at PBDAC rings. The cotton producer's credit co-ops should also be officially permitted to obtain sales rings with CATGO grading services, as do the other co-ops.

Grading of seed cotton should be permitted at any gin, in addition to PBDAC sales rings or cooperative collection points. Any private trader buying seed cotton outside sales rings should be allowed to deliver his cotton to a gin and have it graded by CATGO graders within a reasonable period (explicitly noted maximum number of days).

⁷⁷ One of the private sector representatives on the Supervisory Committee spent his entire career, before joining a private cotton trading company created with PBDAC funding, as a MALR official and consultant. It is highly unlikely that he would have been chosen by the private sector as its representative.

Note that this is consistent with APRP Tranche V Policy Benchmark D.1, which states that “*Government will allow private sector cotton buyers and cooperatives to set up and operate marketing rings for the collection and purchase of seed cotton.*” Our recommendation goes beyond the Benchmark D.1 in allowing private buyers to assemble seed cotton anywhere (not only in private rings), deliver it to gins, and have it weighed and graded (as seed cotton) at the gins before ginning.

Producers could also benefit from access to collective bargaining power. Co-ops could serve this role and should be encouraged to operate sales rings in competition with the PBDAC and private company rings.

Seed cotton seed sales rings should not be allocated to companies or agencies that are in the business of cottonseed production for planting. Selection of seed cotton for the next season’s planting should be done by qualified MALR technicians at the gins. Cotton seeds for planting should be taken by seed companies at the gins, leaving the lint with lint trading companies.

Seed purchases need to be determined as a function of a realistic plan for the next year’s seed cotton planting. A technical committee should be formed, including representatives of MALR, the HC-SWRMC, and the private sector, to determine realistic seed requirements. *HSU should not be allowed an exaggerated market share on the pretext that this is required for obtaining seed. Furthermore, sales of any lint cotton by a public or quasi-public cotton planting seed agency or company are unnecessary and should be discontinued.*

13.2.4 Cotton Pricing and Subsidies

Seed Cotton Grade Price Premiums. Farmers presently see little or no relationship between the quality of their cotton, or the grade, and the price they receive for it. This is partly due to their lack of knowledge regarding the grading system, but is also due to the small premiums paid per grade step. Inter-grade price differentials (premiums) do not reflect market values and should generally be increased.

Farmers’ lack of understanding of the relationship between quality, grade and price may also be due to the fact that graders grade seed cotton at rings after farmers have deposited their cotton; farmers are not present while the cotton is being graded. Information on grades received by individual farmers, in comparison to other lots at the same rings on the same or different days, needs to be transmitted back to producers.⁷⁸ Combined with larger inter-grade price differentials, this could encourage farmers to produce higher quality seed cotton and to preserve its quality through better handling during harvesting and post-harvest.

GOE Price Subsidies. Since it appears as if a subsidy will be paid to cotton producers in 2001/02, the GOE needs to find a suitable mechanism to pay subsidies without interfering in seed cotton pricing and marketing. Ideally, these payments would be made directly to producers, but the requirements of administering such a system would be very high. Hence, payments would best be directed to registered traders delivering seed cotton to the gins. Any registered trader, with or without PBDAC sales rings, could participate. CATGO could confirm, at the gins, that seed cotton belonged to a particular trader and had been delivered once and only once to the gin by that trader.

⁷⁸ One common grading practice that would work against this recommendation is the tendency of graders to grade large volumes of seed cotton at one time at a given ring, awarding few grades or only one grade.

Flexible Marketing Margins. Fixed margins between seed cotton and domestic lint or export prices are not necessary. Traders can determine what marketing margins they wish to pay and make their own offers to producers or to other sellers of lint. Free markets do not have fixed margins. High fixed margins do not stimulate competition; they promote high-cost, inefficient marketing firms and operations.

Ginning Charges. Ginning charges have been set administratively historically, probably largely to facilitate public sector accounting. While there is a clear accounting transparency reason for this, administered pricing does not usually lead to the most efficient economic outcomes. Ginning companies should be allowed to price their services in a competitive manner. Once excess national ginning capacity is eliminated, ginning charges will rise.

Export Prices. Greater flexibility is needed in pricing lint for export. Egypt sets minimum export prices in September, which determines the general level of export prices, as well as seed cotton prices paid to farmers. In a free market, export prices are not set by any agency but determined by international market conditions. Export prices should be negotiated by buyers and sellers. Data on export commitments could be reported to ALCOTEXA on a weekly basis and summarized (aggregated) for publication. ALCOTEXA could also publish average weekly prices per variety and grade *ex post*. This would avoid any need to announce fixed minimum export prices at the beginning of the season or each week.

13.2.5 Export Marketing Recommendations

ALCOTEXA should be allowed to test other innovations, such as permitting trading companies to enter into forward contracts before the season officially opens, and changes in export grading, fobbing costs, and distribution of carrying charges for lint prior to export shipment. Carrying charges on export contract sales should not be fixed but negotiated by the buyer and seller.

No GOE official or agency should set export quotas or export price levels for any cotton variety. Similarly, no GOE official or agency should set quotas for deliveries of particular varieties of lint to public sector spinning mills.

ALCOTEXA should consider repealing its current rule on minimum exportable grades. This rule was reportedly established to maintain the quality of Egyptian cotton, but it has not been effective. Traders blend cotton to obtain a maximum quantity at this low grade so that little or no cotton is exported above this grade.

The grading system for export cotton should be simplified. Consideration should be given to adopting a simple system of about 5 grades (1-5) for each variety.

HVI tests by CATGO should be made on every export bale. Such data are more useful to the buyer than is the grade established through visual inspection by CATGO graders. *There is an APRP Tranche V policy benchmark that calls for HVI testing of export bales.*

ALCOTEXA should consider a change in its purpose away from that of price determination and regulation to that of an information and arbitration agency for its members. It already has an excellent statistical section that provides data on export commitments and shipments. ALCOTEXA needs to provide more data on international prices to its members. Export prices need not be announced in advance. All data on contracted quantities and prices should

be reported regularly to ALCOTEXA, which could choose to publish selective statistics (e.g. average weekly prices; weekly export commitments by variety and perhaps by shipper).⁷⁹

13.2.6 Domestic Utilization Recommendations

The GOE is subsidizing lint purchases by public sector spinning companies in 2000/01. The study team recommends not subsidizing domestic spinners, as these subsidies may keep inefficient public companies in operation longer than they should be allowed to operate and postpone hard decisions about the future of these companies. If subsidies are going to be paid on Egyptian lint, however, they should be offered to both public sector spinning companies and private spinners on equal terms. Egyptian lint (and any imported lint) sold by public sector companies (or the HC-SWRMC) should be made available to all buyers on the same terms. This includes old carryover stocks that are often sold by the HC and public trading companies at discounted prices to public buyers. Prospective buyers of Egyptian or imported lint need to be contacted prior to public sector sales.

A broader strategic issue is that of domestic spinners' requirements, which are set administratively (for public spinning companies) and influence lint supplies for export. Setting of lint quotas for domestic spinners ensures a certain level of operation but not profitability. Lint purchases by spinners need to reflect demand for yarn. Operating public spinning mills at a level that allows production targets to be met is a holdover from the command economy of the 1960s through 1980s, not an appropriate approach for determining demand for yarn in a competitive global economy. Much of the production of the domestic spinners can be sold in the local market, to the extent that the Egyptian market is highly protected and foreign yarn and clothing are kept out. Leakages, from the temporary admission system and through smuggling, are alleged to be significant and harmful to the domestic spinners.⁸⁰ More important for the medium run is that tariff levels are being lowered in compliance with the GATT/WTO. The possibility of expanded imports of yarn spun from shorter-staple cotton will influence domestic requirements.

At a minimum, the concept of domestic requirements for (largely) public spinners needs to be revisited. Changing the way holding company officials and heads of affiliated (spinning) companies think about spinners' demand for lint will be no easy task. The command economy is still alive and well in this industry. An increasing private sector share in national yarn output, as well as likely expanded competition from imports, will change this administrative approach to determining lint needs over time.

13.2.7 Privatization Recommendations

Privatization of Gins. The three remaining public ginning companies should be encouraged to lease or sell individual gins if possible. This approach may speed privatization and it will promote competition in the sector. The effect of the merging of the three public ginning companies into one company, first announced in late March 2001, on privatization prospects is unclear. It appears as if some older, inefficient gins will be closed, which will be positive in reducing excess national capacity. Whether the merged company will attempt to privatize

⁷⁹ The export data that ALCOTEXA chooses to report should reflect exporter concerns about confidentiality of transactions. Information that would be considered proprietary in any other industry is disclosed in surprising detail by ALCOTEXA. While this is a boon for analysts, it may not be appropriate.

⁸⁰ The extent to which these allegations are an excuse for poor performance of public spinning companies is unknown.

individual gins in a serious privatization effort or merely entrench the public sector in the ginning industry remains to be seen.

The split between ginning and trading in the public sector did not produce the best ginning services or the highest quality lint. The best quality ginning will most likely be performed when traders have control of gins. Hence, the GOE should consider offering individual gins to private investors, particularly cotton trading companies, in order to promote quality ginning services and lint output.

Privatization of the Public Trading Companies. The GOE should adopt a goal of complete privatization, or elimination, of the public cotton trading companies within 5 years. This does not simply mean reducing the number of public trading companies (through mergers) but a reduction in the market share of the public companies. The only major asset of these public trading companies is the expertise of their employees. Skilled employees will join the private sector (some already have), and the companies should be closed with proper compensation to the remaining employees.

Privatization of Spinning Companies. Privatization of public textile companies, where feasible, and closure of poorly performing or idled companies, could help to streamline the spinning industry in Egypt. This would, in the medium run, lower domestic demand for high-quality Egyptian lint, as reflected in domestic “requirements” set administratively by the Holding Company. As the public spinning industry shrinks, private investors would likely invest selectively in high-count spinning, which is a better use of expensive Egyptian lint than low- to medium-count spinning done by most public spinners. Reduced domestic lint requirements could also shift more Egyptian lint to export markets. The GOE has a strong interest in accelerating privatization of the textile industry, using any privatization tool available, including leasing and management contracts.

13.2.8 Imports of Lint

As more high-quality Egyptian lint is spun to high counts of yarn locally or exported to foreign spinners who can use it in their blends, there will likely be greater imports of shorter staple cotton lint to meet the needs of those domestic mills that continue to spin lower counts. Historically, the Holding Company has dominated imports, though private firms may be interested in providing this function. If private traders imported shorter-staple lint, it might also be more readily available to smaller private spinners, whose access to lint imported by the Holding Company has been limited.

Although there has been some consideration under APRP of growing *hirsutum* (upland) cotton in Egypt, momentum has completely stalled and there is little likelihood that *hirsutum* cultivation will be pursued further at this point. The CRI opposes *hirsutum* cultivation in currently cultivated areas of the Nile River Valley and Delta, fearing mixing of *hirsutum* and *barbadense*. There has been some talk of growing *hirsutum* in Toshka or East Oweinyat, though this is unlikely to lead to any significant production in the medium term. The CRI has run a few trials, for which data are unavailable.

13.2.9 Formation of a Situation and Outlook Service

We recommend the establishment of a Situation and Outlook Board which has the responsibility for developing and distributing the most reliable and up-to-date estimates of production and price movements for cotton in Egypt and throughout the world. Such

information is needed to guide farmers, especially at planting time, and for traders in their market decisions. Such a S & O Board could also release monthly data during the marketing season on deliveries to the rings and gins, producer and into-spinning mill price data, and export commitments and prices.

Large traders can afford to have their own S & O research departments but small companies or farmers cannot. Thus a publicly supported S & O service would benefit mostly small traders and farmers and promote competition in the industry. A S & O Board would ideally cover the major summer and winter crops.

APRP attempts to develop a S & O capacity within MALR/EAS have led to periodic attempts to release, on a limited basis, some S & O reports. APRP has also recently begun to develop a web site (www.agpolicy.com), at the MEFT's behest, that tracks cotton (and rice) production, prices, exports, and marketing.

The policy analysis unit in MALR/EAS, the web site, and an independent S & O Board all require a serious commitment on the part of both the GOE and donors to capacity building. The GOE and donors need to earmark funds for these initiatives in future programs. Significant GOE contributions in trained manpower, office space, and funding to meet recurrent costs will be essential to show that there is demand, at the policy-maker level, for better market information, production forecasts, and policy analysis.

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ANNEX

List of Persons Interviewed

GOE Officials:

Ahmed El Gohary, Former Director, Cotton Research Institute, ARC, MALR.
Ahlam Abou Zeid, Head of Credit Sector, PBDAC.
Ali El-Tohamy Gen. Dir. of Ginning and Cotton Seed Crushing, CASC, MALR.
El Said Erfan, Chairman of CATGO.
Moataz Billah A. Maksood, Chairman, Textile Holding Co. (SWRMC-HC)
Mohammed Tabbakh, Chairman of Distribution Committee, Textile Holding Co.
Reda Ismail, First Undersecretary for Extension Affairs, MALR.
Yousef Abdel Rahman, Chairman of PBDAC

Public Trading & Ginning Companies:

Abdel Salam Badra El Din, Chairman and Managing Director of Al Kahira.
Bahaa El Sherif, Chairman and Managing Director of El Wady Trading & Ginning Co.
Eglal Abou Sabaa, Commercial Director of Port Said Trade and Export Co.
Mamdouah Sayed Abdel Sattar, Chairman and Managing Director, and Nadia Sherbini, Commercial Director, Eastern Cotton Co.
Said Haggag, Chairman, Alcotan Trading Co.
Shafik Gomaa, Chairman and Managing Director of the MISR Trading and Export Co.
Wagdi Hendi, Chairman of Port Said Trade and Export Co.

Cooperative Officials:

Ahmed Ashmawy, Chairman of the Cotton Producers Co-operative Society.
Hussein Mohamed El-Araby, Dep. Manager, General Co-op Society for Land Reclamation.

Private ALCOTEXA Members:

Ahmed Shouman, Nefertiti Cotton Co.
Ahmed Abd El Aziz, Benha Cotton Company.
Ahmed Abd El Salam Baraghet, Tanta Cotton Trading Company.
Ahmed Elbosaty, Modern Nile Trading Company.
Ahmed EL-Sharnouby Aiad, Cotton Trader.
Amin Abaza, Chairman, Modern Nile Trading Company & Arabia Ginning Co. and Chairman of ALCOTEXA.
Abdel Sattar Abou Madawi, Abou Madawi for Cotton Trading.
Abou Bakr Ghoneim, Tanta Cotton Trading Co.
Ayman Nassar, Managing Director, NASSCO Trading Co.
Bassiouni El-Sharnoubi, El-Dawlia for Crops
Ezz El Din El Dabbah, Owner of ATICOT Trading Company.
Farouk Ebaid, Commercial Director, Tanta Cotton Company.
Farouk M. El Tellawy, Chairman of Nile Ginning Company.
Maher El-Koraie, Commercial Manager of Benha Cotton Trading.
Medhat El Alfy, General Manager and Abdallah El Borai, Comm. Manager of Nassco Trading Co.
Mohamed Alaa El Din Bishbishi, Managing Director of Al Watany for Cotton and Agricultural Development Co.

Mohamed Montasser, Managing Director and Mohamed I. Zobeir, Commercial Manager,
Talaat Harb.

Mohamed Said, El-Mabrouk Co.

Moataz El-Edkawi, Edkawi Co.

Zaki El-Edkawi, Edkawi Co.

Other Private Sector Cotton Traders:

Al-Hotti, Trading Co., Beni Swef.

Captain Mohamed Hammad, Al-Saiad.

Hassan Wafi, Cotton Trading Co., Fayoum.

Mahmoud Kantoush, Cotton Trading Co., Damanhour

Mahmoud El-Garhy, Fayoum.

Mohamed Abdel Moneim, United Company, Beni Swef.

Sherif El-Anani, Benha Cotton Trading Co.

Salah Shawer, Chairman of Middle East Cotton Co., Beheira.

Importers:

Ahmed El-Wakil, Chairman of WAKALEX Co., Importer of Syrian Cotton

Ibrahim Ibrahim Shoukry, Chairman of North Delta Agriculture Co, Importer of Sudanese
Cotton.

Spinners:

El-Sayed Dahmoush, Consultant to Misr Amriya S &W Co.

Fawzi Salem, Chairman of Al-Ahlia for Spinning and Weaving.

Mohamed Hegazy, Chairman of UNIRAB.

Mohamed El-Hamy, Chairman, Misr Amriya S &W Co.

Refaat Helal, Chairman, Alexandria Spinning Co.